building value

NEW BRUNSWICK POWER CORPORATION **ANNUAL REPORT** 1999-2000

Énergie NB Power

> NB POWER PROVIDES NEW BRUNSWICKERS WITH SAFE, DEPENDABLE AND ECONOMIC ELECTRICITY AS IT BUILDS VALUE FOR ITS OWNER, CUSTOMERS AND EMPLOYEES ALIKE. THIS FULFILLS THE LEGISLATED MANDATE TO "PROVIDE FOR THE CONTINUOUS SUPPLY OF ENERGY ADEQUATE FOR THE NEEDS AND FUTURE DEVELOPMENT OF THE PROVINCE AND TO PROMOTE ECONOMY AND EFFICIENCY IN THE GENERATION, DISTRIBUTION, SUPPLY, SALE, AND USE OF POWER." > AS WE MOVE TOWARDS A DEREGULATED MARKET, OUR BUSINESS OBJECTIVES AND STRATEGIES REFLECT NB POWER'S COMMITMENT TO ESTABLISHING ITSELF AS A COMPETITIVE ENERGY SUPPLIER IN THE EMERGING MARKETPLACE. > WE INCREASE OUR VALUE BY BEING INNOVATIVE IN THE PURSUIT OF OPPORTUNITIES, COMPETITIVE IN THE CONDUCT OF OPERATIONS AND FOCUSED ON OFFERING EVER-IMPROVING SERVICE TO OUR CUSTOMERS.

→ **FOR THE OWNER.**

→ **FOR CUSTOMERS.**

→ **FOR EMPLOYEES.**

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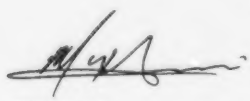
June 29, 2000

To Her Honour
The Honourable Marilyn Trenholme Counsell, MD
Lieutenant-Governor of New Brunswick

Madam:

New Brunswick Power Corporation begs leave to submit, in accordance with the Electric Power Act, Chapter E-5, of the revised Statutes of New Brunswick 1973 as amended, the report for the fiscal year ended March 31, 2000.

I am, Your Honour,
Yours very truly,



Max Lewis
Chairman

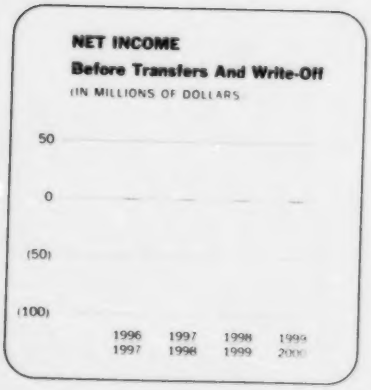
100-07130/

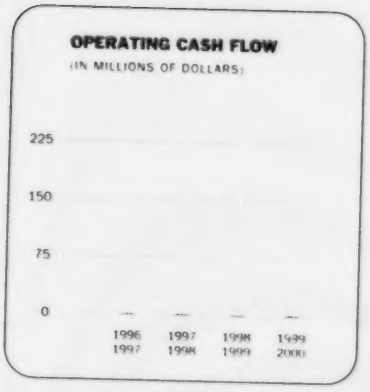
HIGHLIGHTS

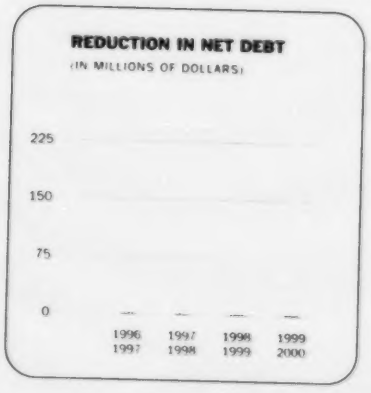
(IN MILLIONS OF DOLLARS)	1999-2000	1998-1999	1997-1998	1996-1997
Financial Performance				
Income (loss) before transfers and write-off	**$ 17**	$ 18	$(43)	$(87)
Income (loss) before write-off	**17**	27	(21)	(19)
Net income (loss)	**17**	(423)	(21)	(19)
Operating cash flow	**243**	247	163	129
Free cash flow	**196**	189	67	68
Reduction in net debt	**$233**	$123	$ 44	$ 53
Financial Ratios and Percentages				
Operating margin	**28%**	30%	26%	25%
Operating cash flow/ capital expenditures	**4.51x**	3.80x	2.76x	1.87x
Debt/capital	**99%**	100%	89%	89%
Interest coverage*	**1.06x**	1.06x	0.86x	0.72x

* Based on income (loss) before transfers and write-off

financial highlights





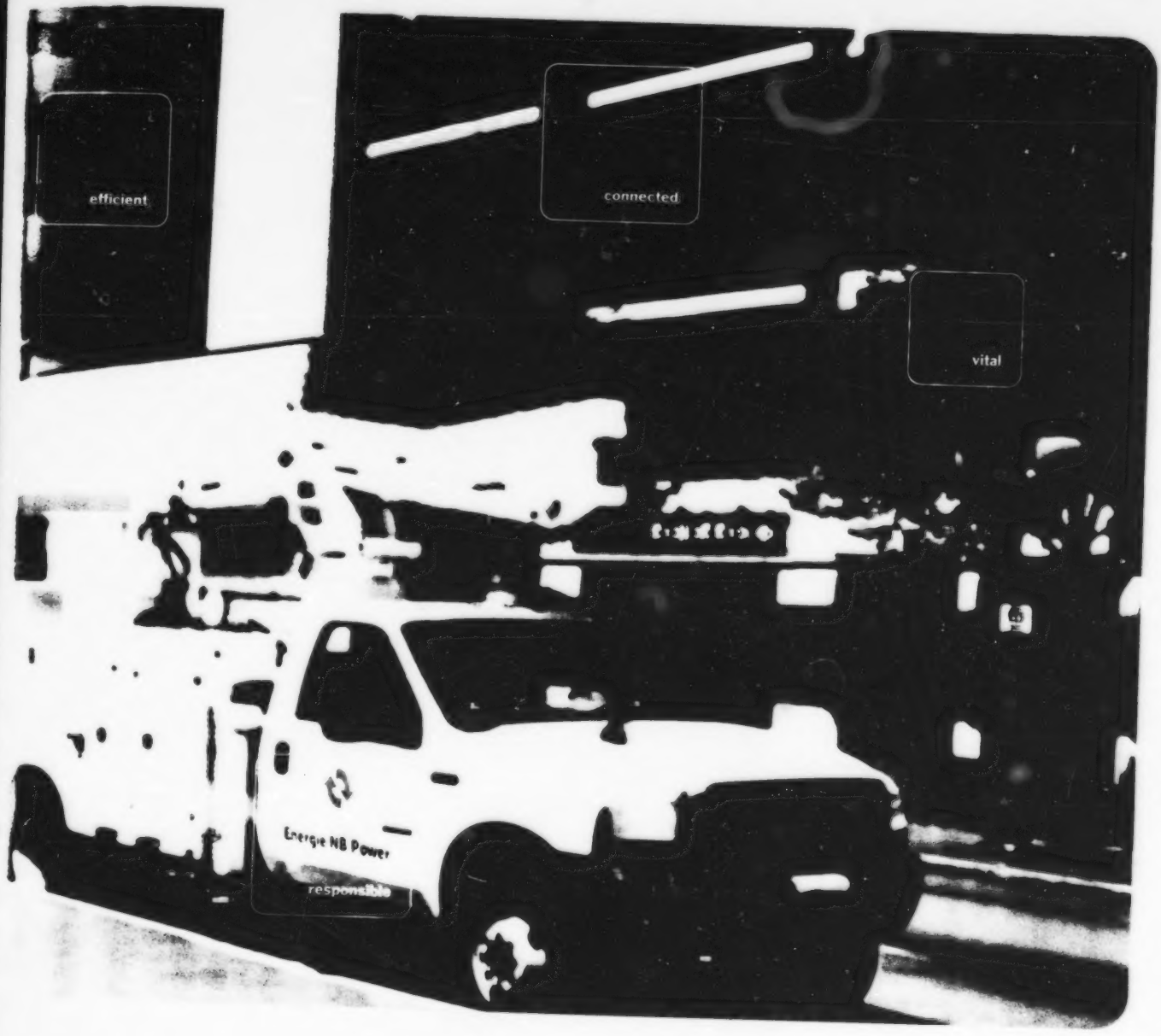


corporate profile

A CROWN CORPORATION WITH THE LEGISLATED MANDATE TO SUPPLY THE ELECTRICITY NEEDS OF THE PROVINCE, NEW BRUNSWICK POWER CORPORATION IS ATLANTIC CANADA'S LARGEST ELECTRIC UTILITY. BUILDING ON AN ESTABLISHED RECORD OF ACHIEVEMENT, NB POWER HAS RECENTLY COMPLETED ITS REORGANIZATION INTO SEPARATE BUSINESS UNITS AND IS CONTINUING ITS EVOLUTION INTO A MORE EFFICIENT AND CUSTOMER DRIVEN COMPANY.

GENERATION
Operating one of the world's most diverse generating systems, this business unit produces economic and dependable electricity at its fourteen hydro, coal, oil and Orimulsion® powered facilities. The network of generating stations has an installed capacity totalling 3,284 MW.

NUCLEAR
The Candu-6, 635 MW unit at Point Lepreau generates low-cost electricity, supplying up to 30% of NB Power's output. Its predictable and reliable production is important to the Corporation's financial, operational and environmental performance.



TRANSMISSION AND DISTRIBUTION
Responsible for delivering electricity in a reliable and safe manner to 347,000 direct and indirect customers, staff in five regions manage and maintain 32,000 km of power lines, as well as 360 substations and terminals. The Energy Control Centre operates the transmission and distribution systems and administers electronic transmission reservation transactions.

CUSTOMER SERVICE AND MARKETING
With its commitment to customer satisfaction and loyalty, Customer Service and Marketing focuses on customer relations, market development, account management and energy counsel. More call centre resources and new customer information technology provide the tools to deliver the "Easy To Do Business With" service strategy.

CORPORATE SERVICES
The Corporate Services group comprises Business Information Systems, Finance, Corporate Planning, Telecommunications, Environment, Human Resources and Administration, Legal and Public Affairs. By providing strategic direction and support functions, Corporate Services enables the business units to better perform in the generation and delivery of low cost, reliable energy.

chairman's message

NB Power's mandate in the *Electric Power Act* is to "provide for the continuous supply of energy adequate for the needs and future development of the Province and to promote economy and efficiency in the generation, distribution, supply, sale, and use of power."

To fulfill this mandate and capitalize on its business potential, NB Power has followed a determined course to improve its operations, increase the financial value of the Corporation and establish a strategy for business development. Success in each of these areas during 1999-2000 has delivered positive financial and operational results that serve to benefit the owner, customers and employees.

NB Power's mandate, first formulated in the 1920s, is being re-examined in the light of deregulation and competition in the regional electricity sector. The evolution of energy policy in New Brunswick has been a deliberative process. Over two years ago, a discussion document on electricity served as the basis for a task force to consult with stakeholders on restructuring options. Following a subsequent consultation process and review, an all-party Legislative Select Committee on Energy recommended changes to New Brunswick's electricity industry. Currently, the Provincial Government is formulating a new energy policy.

With strengthening financial and operational performance, NB Power is better positioned to respond to new policy direction and successfully compete in a deregulated marketplace.

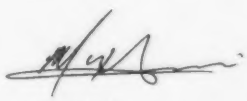
NB Power's Board of Directors is committed to high standards of corporate governance and has taken steps to formalize and enhance governance practices. Over the past two years, the governance framework has been brought in line with recommendations on governance by the Toronto Stock Exchange and the Conference Board of Canada. The Board of Directors is responsible for the:

- > adoption of a strategic plan
- > implementation of appropriate systems to identify and manage the principal risks to the business
- > establishment of succession planning for senior management
- > communication policy
- > integrity of internal accounting and management information systems

During 1999-2000, the board met regularly to review corporate performance in these areas. Additionally, Board Committees on audit, environment, and human resources and corporate governance regularly reviewed performance in these respective areas.

New board members Jean-Marc Violette, Barbara Bender, Roger Clinch and Phillip DesRosiers, each from the private sector, have strong business credentials. I want to welcome them to the Board. I also want to thank outgoing members Gary Long and Brenda Pirie-Seheult for their valued contributions.

I want to commend the executive and staff for fulfilling the Corporation's mandate. Thanks to their achievements in 1999-2000, NB Power has delivered on its promise of building value for our owner, customers and employees.



Max Lewis
Chairman

president and CEO's message

In 1999-2000 net income was $17 million which continued a positive trend of improving net incomes. The net income would have exceeded $24 million but for a $7 million charge for staff reductions in the Generation business unit. This one-time charge will result in annual savings of $8 million beginning in 2001-2002.

The Corporation's operating cash flow was $243 million, which is stable when compared to $247 million in 1998-1999. Capital expenditures increased to $95 million from $68 million the previous year. Higher capital spending, funded from cash flow, reflects the decision to make strategic investments to improve the future performance of the Corporation. Free cash flow, the funds available for debt reduction, increased to $196 million in 1999-2000 which is more than double the level of two years ago. Debt reduction for the year was $233 million. This is the fourth consecutive fiscal year that NB Power has reduced its debt.

These financial performance indicators demonstrate significant and continuing improvement. Over the past four years, the Corporation's financial turnaround has exceeded $100 million, from a loss of $87 million in 1996-1997 to a net income of $17 million 1999-2000. During this turnaround period, the debt was paid down by $453 million.

These are strong indicators of a healthy and sustaining financial recovery at NB Power. The Corporation's value to the Province of New Brunswick has been increased dramatically.

The conventional generating units met their overall availability and reliability performance targets allowing for a reliable, economic supply for in-province customers and record benefits from export sales. A new human resources plan, developed this year and scheduled for completion in 2000-2001, will bring Generation's staffing levels in line with high-performing electric utilities in North America.

The Point Lepreau Nuclear Generating Station completed another year of successful operation. The station achieved its second longest period of continuous service since commissioning. On-going initiatives–incorporating international standards, transition team activities and implementing a new station business plan–will support future performance improvement. The preliminary refurbishment definition and engineering work has begun so that an informed decision on whether to proceed with station life extension may be made in 2002.

Transmission and Distribution continued to upgrade system maintenance and is exploring regional transmission organization opportunities. Customer Service and Marketing is blending new technologies with a greater focus on staff training and development in order to better serve customers.

NB Power's business development strategy leverages geographic location, generation diversity and transmission access in order to maximize the Corporation's business potential. The Corporation is pursuing partnership arrangements for new projects. The new opportunities also involve hedging of financial risks while maintaining an attractive level of operational, environmental and financial benefits.

NB Power's plan is to maximize the value of its existing infrastructure through natural gas generation for in-province use and export. The joint development with Westcoast Energy

of a natural gas combined-cycle unit at Courtenay Bay, known as Bayside Power, is proceeding for completion in early 2001. Discussions are on-going regarding further development at Courtenay Bay and other locations. New transmission models are being explored to take further advantage of NB Power's strong interconnections with New England and Eastern Canada.

The reorganization into business units in 1996-1997 continues to drive the improvement in operational and financial performance. The utility operates much more effectively under the business unit form of organization with alignment of corporate and business unit goals, performance measurement and greater accountability. The strengthening of the business units continued in 1999-2000 with the introduction of risk management and greater efforts towards better communication.

NB Power has initiated a program in each business unit to integrate risk management with current business practices and to introduce a more sophisticated framework for control procedures. At the corporate and business unit level, teams are examining which risk factors are obstacles to achieving business objectives and mitigation plans are being developed and implemented. The plans and results are monitored at both the Executive and Board levels.

The Joint Workplace Improvement initiative, known as "Outreach 2000", was another extremely positive development. A Workplace Improvement Committee Conference, jointly sponsored by NB Power and the International Brotherhood of Electrical Workers, was held in January 2000. From this beginning, employee awareness sessions during April 2000 provided face-to-face forums for open and frank discussion about the current operations and future direction of the Corporation. Accounting for business risk and greater employee understanding of the challenges facing NB Power will lead to improved decision-making and performance.

The Government of New Brunswick is considering options to restructure the electricity sector as part of its broader energy policy review.

At the heart of the accomplishments in 1999-2000–improving financial and operational performance, new business development, business risk management and "Outreach 2000"–were employees broadening their business expertise and taking greater control of their business operations. Taken together, these achievements have built a much more valuable Corporation for the Province of New Brunswick. Today, NB Power is in a stronger position to benefit from future opportunities.

James F. Hankinson
President and CEO

(FROM LEFT TO RIGHT)

VICE PRESIDENT, CUSTOMER SERVICE AND MARKETING

CORPORATE SECRETARY AND GENERAL COUNSEL

DIRECTOR, PUBLIC AFFAIRS

VICE PRESIDENT, HUMAN RESOURCES AND ADMINISTRATION

VICE PRESIDENT, CORPORATE PLANNING

VICE PRESIDENT, PERFORMANCE IMPROVEMENT AND PRESIDENT, NB COAL

PRESIDENT AND CHIEF EXECUTIVE OFFICER

GENERAL MANAGER, GENERATION

GENERAL MANAGER, TRANSMISSION AND DISTRIBUTION

VICE PRESIDENT, NUCLEAR

SENIOR VICE PRESIDENT, OPERATIONS

VICE PRESIDENT, FINANCE AND INFORMATION SYSTEMS

> STRATEGIC LOCATION. GREATER VALUE FROM ASSETS. NB POWER'S BUSINESS DEVELOPMENT WILL GENERATE FINANCIAL, OPERATIONAL AND ENVIRONMENTAL BENEFITS.

NB POWER'S BUSINESS DEVELOPMENT STRATEGY IS TO TAKE MAXIMUM ADVANTAGE OF THE UTILITY'S STRATEGIC GEOGRAPHIC LOCATION ADJACENT TO RESTRUCTURING ELECTRICITY MARKETS. THIS WILL BE ACHIEVED BY GENERATING ELECTRICITY FROM NATURAL GAS, A NEW FUEL SOURCE IN THE REGION, AND TRANSMITTING THE ELECTRICITY TO DEVELOPING MARKETS. ENTERING PARTNERSHIPS THAT SHARE PROJECT RISKS AND BENEFITS WILL REDUCE THE OVERALL EXPOSURE TO NB POWER FROM PARTICIPATING IN THESE MARKETS.

THIS STRATEGY EMERGED FROM THE OPENING OF THE TRANSMISSION SYSTEM FOR 'OUT' AND 'THROUGH' TRANSMISSION SERVICE IN 1998. WITH NB POWER'S UNBUNDLING OF TRANSMISSION AND GENERATION SERVICES, ALL GENERATORS, INCLUDING PRIVATE MERCHANT PROJECTS, CAN PURCHASE NON-DISCRIMINATORY TRANSMISSION SERVICES. FAIR ACCESS TO EXTERNAL MARKETS REMOVES BARRIERS TO THE DEVELOPMENT OF PRIVATE POWER PROJECTS AND ENHANCES THE VALUE OF NB POWER'S GENERATION AND TRANSMISSION SYSTEM.

> IN THE BAYSIDE POWER PROJECT, NB POWER HAS PARTNERED WITH WESTCOAST ENERGY TO REDEVELOP AN OIL-FIRED UNIT AT COURTENAY BAY INTO A 280 MW NATURAL GAS-FIRED COMBINED-CYCLE UNIT. BEGINNING IN 2001, NB POWER WILL PURCHASE THE OUTPUT DURING WINTER MONTHS, LEAVING THE PROJECT THE OPPORTUNITY TO EXPORT ELECTRICITY TO THE U.S. DURING THE BALANCE OF THE YEAR. > NB POWER IS EXPLORING THE POSSIBILITY OF FURTHER REDEVELOPMENT AT COURTENAY BAY. > POTENTIAL PROJECTS AT OTHER SITES, INVOLVING THE UTILIZATION OF NATURAL GAS OR FUEL CONVERSION, ARE ALSO UNDER CONSIDERATION. > BASED ON THE U.S. FEDERAL ENERGY REGULATORY COMMISSION ORDER 2000 ON THE ESTABLISHMENT OF REGIONAL TRANSMISSION ORGANIZATIONS (RTOs), NB POWER IS EXPLORING OPPORTUNITIES WITH NEIGHBOURING UTILITIES. RTOs COMPRISE SEVERAL TRANSMISSION UTILITIES OR SYSTEMS THAT PROMOTE ELECTRICITY TRADING OVER WIDE AREAS. THIS DEVELOPMENT WILL COMPLEMENT NB POWER'S STRONG INTERCONNECTION CAPACITY WITH UTILITIES IN NEW ENGLAND AND EASTERN CANADA. > NB POWER COMPLETED THE SALE OF TWO 100 MW COMBUSTION TURBINES TO ENRON CANADA FOR (US) $26 MILLION. THE TURBINES WERE SURPLUS TO GENERATION REQUIREMENTS AND THE PROCEEDS FROM THE SALE WERE APPLIED TO DEBT REDUCTION.

> MEET UNIT AVAILABILITY AND RELIABILITY PERFORMANCE TARGETS > CHAMPION PUBLIC AND EMPLOYEE SAFETY AND SAFEGUARD EQUIPMENT > MANAGE OPERATING AND CAPITAL EXPENSES > ENSURE ENVIRONMENTAL REGULATORY COMPLIANCE > BUILD A COMPETITIVE BUSINESS UNIT

> DEVELOP PLANT MAINTENANCE MODEL TO OPTIMIZE MAINTENANCE EXPENDITURES AND UNIT RELIABILITY > ACHIEVE COMPETITIVE STAFFING LEVELS AND GREATER WORKFORCE FLEXIBILITY > ENHANCE EMPLOYEE KNOWLEDGE OF INDUSTRY TRENDS SUCH AS COSTING/PRICING IN A COMPETITIVE MARKET > MANAGE PERFORMANCE THROUGH MEASUREMENT AND REPORTING OF KEY INDICATORS > COMMUNICATE A VISION OF COMPETITIVENESS AND THE VITAL EMPLOYEE CONTRIBUTION TO BUSINESS UNIT DEVELOPMENT

OPERATING ONE OF THE WORLD'S MOST DIVERSE GENERATING SYSTEMS, THIS BUSINESS UNIT PRODUCES ECONOMIC AND DEPENDABLE ELECTRICITY AT ITS FOURTEEN HYDRO, COAL, OIL AND ORIMULSION® POWERED STATIONS. THE NETWORK OF CONVENTIONAL GENERATING STATIONS HAS AN INSTALLED CAPACITY OF 3,284 MW.

RELIABLE POWER. COMPETITIVE PRICING. OUR MISSION IS TO BE A RELIABLE, LOW-COST PRODUCER AND A SUCCESSFUL COMPETITOR IN A DEREGULATED MARKET.

BUSINESS ACCOMPLISHMENTS

Generating units met their overall availability and reliability performance targets. Record hydro net generation of 2,999 GWh, reflecting both high rainfall amounts and unit reliability, was 13% above the long-term average.

The Year 2000 date transition passed without incident, reflecting the successful work within Generation to inventory, check and audit equipment and software that could have been affected by the date changeover.

Export benefits exceeded budget expectations by $20 million.

Business process improvements to inventory and property management lowered cash requirements by over $1 million.

Environmental performance was improved according to indicators of spills, waste water and air emissions.

The installation of a wet precipitator in the existing scrubber at Dalhousie will improve plume appearance. A scrubber is equipment that significantly reduces sulphur dioxide emissions, while a "wet precip" uses charged wires and plates to collect the particles from flue gases that cause a darkened plume. This is the first time a wet precipitator has been installed in a scrubber in North America. Work on the project began in the spring of 2000 during the station's maintenance outage.

NB Coal, a wholly-owned subsidiary of NB Power, reached its production target of 300,000 tons. For the

generation

third year, NB Coal received the John T. Ryan National Safety Award recognizing the company's lowest injury frequency rate in its industry sector. As of March 31, 2000, the company had operated 1,263 days without a lost time accident.

BUILDING A COMPETITIVE BUSINESS UNIT

A bulk marketing department was created to maximize financial benefits by co-ordinating generation capability with interconnection sales and purchase opportunities. The business unit now has responsibility for the hourly dispatch of generation, a non-regulated activity.

New targets for staffing levels are being implemented to maintain competitive production costs. A staffing level of less than 500 employees, identified following a benchmark review of the top performing generating stations in North America, is scheduled to be achieved by June 2000. Redeployment of surplus employees into vacancies in other business units and selected early retirements will assist the workplace adjustment.

A dedicated human resource department was formed in Generation to assist in the implementation of the competitive staffing plan and other workplace improvement initiatives. A Joint Workplace Improvement Committee Conference was held in January 2000 and employee awareness sessions provided presentations for all staff on the future direction of the business unit.

NB Power has begun a program in each business unit to integrate risk management with current business practices and introduce a more sophisticated framework for control procedures. At the corporate and business unit level, teams are examining which risk factors are obstacles to achieving business objectives and mitigation plans are being developed and implemented. The plans and results are monitored at both the Executive and Board levels. Business risk management is becoming a key part of planning and operations in Generation. One of the initial accomplishments of the program in 1999-2000 was an employee workshop to provide feedback on current policies, monitoring and accountability.

nuclear

THE CANDU-6, 635 MW UNIT AT POINT LEPREAU GENERATES LOW COST ELECTRICITY, SUPPLYING UP TO 30% OF NB POWER'S GENERATION OUTPUT. ITS RELIABLE PRODUCTION IS IMPORTANT TO THE CORPORATION'S FINANCIAL, OPERATIONAL AND ENVIRONMENTAL PERFORMANCE.

QUALITY TODAY. AN ASSURED FUTURE. OUR MISSION IS TO BE PREPARED TO REFURBISH POINT LEPREAU AND ACHIEVE WORLD CLASS STANDARDS IN OPERATIONS.

BUSINESS ACCOMPLISHMENTS

The fiscal year was completed with a 72% capacity factor. Though this was less than the planned capacity factor of 79% due to an extension of the planned maintenance outage, Point Lepreau completed its second longest period of continuous operations since commissioning in 1982. Only one unplanned shutdown occurred following a lightning strike on a transmission line.

The two-year definition phase of the station refurbishment project has begun. This $40 million investment includes preliminary engineering of components and facilities for large scale fuel channel replacement and systems condition assessments. If approved, the refurbishment project will have three additional phases:

> Preparation–Detailed engineering for systems and addressing licensing issues.
> Implementation–Replace 380 fuel channel assemblies, refurbish plant systems and generator set, and implement safety system upgrades.
> Post-Outage–Assessment of future maintenance work and scheduling.

The application and supporting documentation for the biannual renewal of the operating licence have been submitted to the Atomic Energy Control Board (AECB). Formal public hearings are scheduled for June 2000 and a decision is anticipated in October 2000. Industrial safety was

> SAFETY–STRONG NUCLEAR SAFETY CULTURE > COST–PLANNED AND MANAGED OUTAGE SCHEDULE > GENERATION–CONSISTENT, PREDICTABLE OPERATIONS AND SUCCESSFUL REFURBISHMENT DECISION > ORGANIZATIONAL EFFECTIVENESS–CONFIDENCE OF WANO AND AECB

> ENSURE SAFETY AND QUALITY TAKE PRIORITY AND ABIDE BY QUALITY STANDARDS FOR STATION PROCESSES > OPTIMIZE PRODUCTION COSTS AND BALANCE CAPACITY FACTOR WITH SERVICE LIFE IN 18 MONTH PLANNED MAINTENANCE OUTAGE CYCLES > IMPROVE WORK PROCESSES AND IMPLEMENT TRAINING ON WORLD CLASS PERFORMANCE > PREPARE TO REFURBISH POINT LEPREAU AS A WORLD CLASS OPERATION > IMPLEMENT THE NEW *POINT LEPREAU BUSINESS PLAN*

improved with a reduction in days lost due to accidents.

BUILDING A COMPETITIVE BUSINESS UNIT

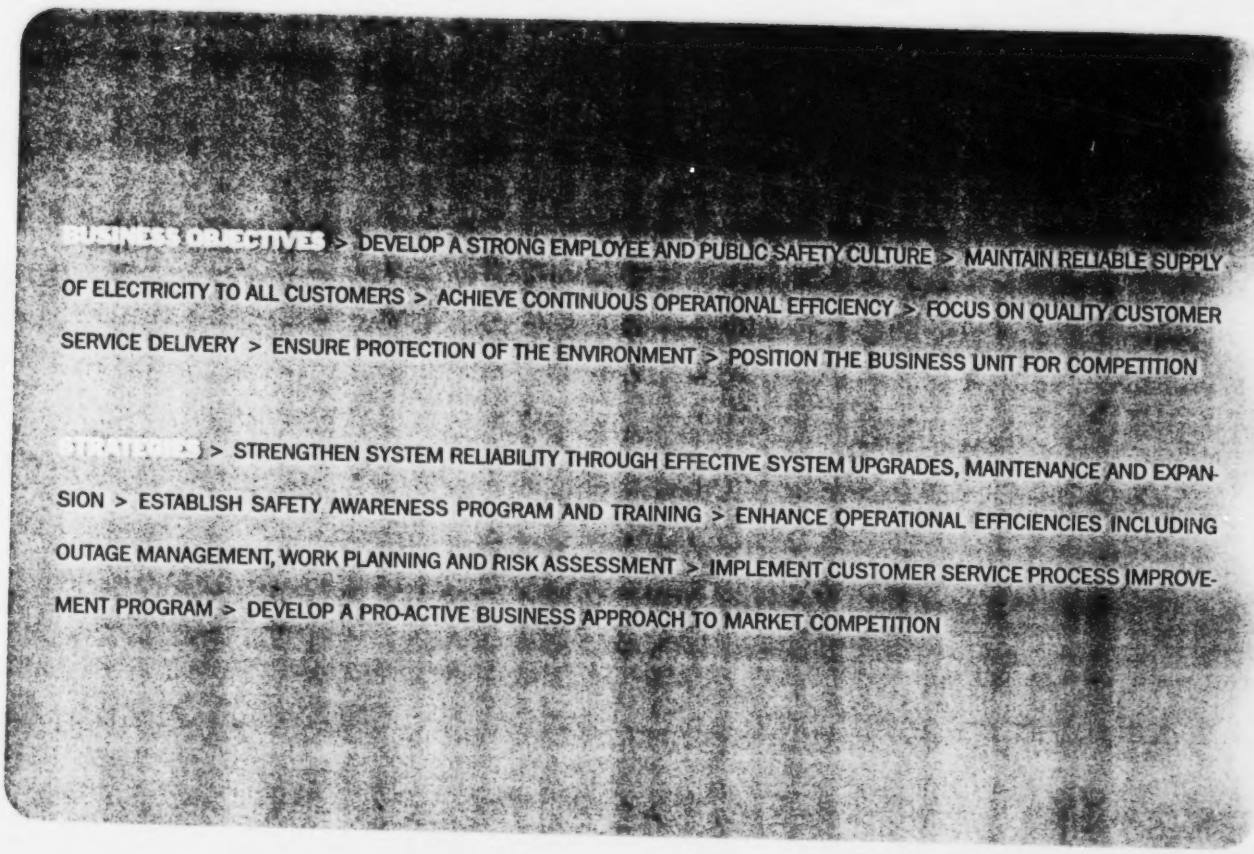
The *Point Lepreau Business Plan* was issued in March 2000. It establishes the objectives, strategies and priorities required for the business unit to be ready to refurbish and operate Point Lepreau to a world class level. Priorities for 2000-2001 have been identified and the major projects include continuation of "managers' commitments", transition team activities, preparations for refurbishment and external reviews. "Managers' commitments" are priority items resulting from the World Association of Nuclear Operators (WANO) industry peer reviews, commitments made to the AECB and refurbishment definition work.

Organizational development is progressing in support of business objectives. This includes the establishment of dedicated teams for refurbishment, outage and transition management. Design functions have been integrated and a new Facilities Group established.

The transition team has assisted management in improving work processes and organizational effectiveness. This has included Vision and Interpersonal Skills training for all employees. Training on performance standards is to be delivered to all business unit staff in 2000-2001.

An Outage Management Team has been established and the commencement of a new 18 month outage management cycle will optimize capacity factor.

Issues identified from the peer review conducted by WANO in 1999 continued to be addressed. Technical visits by WANO in April 2000 examined improvements in human performance, organizational effectiveness and outage management.


BUSINESS OBJECTIVES > DEVELOP A STRONG EMPLOYEE AND PUBLIC SAFETY CULTURE > MAINTAIN RELIABLE SUPPLY OF ELECTRICITY TO ALL CUSTOMERS > ACHIEVE CONTINUOUS OPERATIONAL EFFICIENCY > FOCUS ON QUALITY CUSTOMER SERVICE DELIVERY > ENSURE PROTECTION OF THE ENVIRONMENT > POSITION THE BUSINESS UNIT FOR COMPETITION
STRATEGIES > STRENGTHEN SYSTEM RELIABILITY THROUGH EFFECTIVE SYSTEM UPGRADES, MAINTENANCE AND EXPANSION > ESTABLISH SAFETY AWARENESS PROGRAM AND TRAINING > ENHANCE OPERATIONAL EFFICIENCIES INCLUDING OUTAGE MANAGEMENT, WORK PLANNING AND RISK ASSESSMENT > IMPLEMENT CUSTOMER SERVICE PROCESS IMPROVEMENT PROGRAM > DEVELOP A PRO-ACTIVE BUSINESS APPROACH TO MARKET COMPETITION

RESPONSIBLE FOR DELIVERING ELECTRICITY IN A RELIABLE AND SAFE MANNER TO 347,000 DIRECT AND INDIRECT IN-PROVINCE CUSTOMERS AND OUT-OF-PROVINCE CUSTOMERS, T&D EMPLOYEES MANAGE AND MAINTAIN 32,000 KM OF POWER LINES AND 360 SUBSTATIONS AND TERMINALS. THE ENERGY CONTROL CENTRE OPERATES THE TRANSMISSION AND DISTRIBUTION SYSTEMS AND ADMINISTERS ELECTRONIC TRANSMISSION RESERVATION TRANSACTIONS.

OPERATIONAL RELIABILITY. BUSINESS EFFICIENCY. WE ARE ADVANCING OUR TRANSMISSION AND DISTRIBUTION BUSINESS TO A NEW LEVEL OF CUSTOMER FOCUS.

BUSINESS ACCOMPLISHMENTS

The transition to the Year 2000 was completed with no service interruptions to customers.

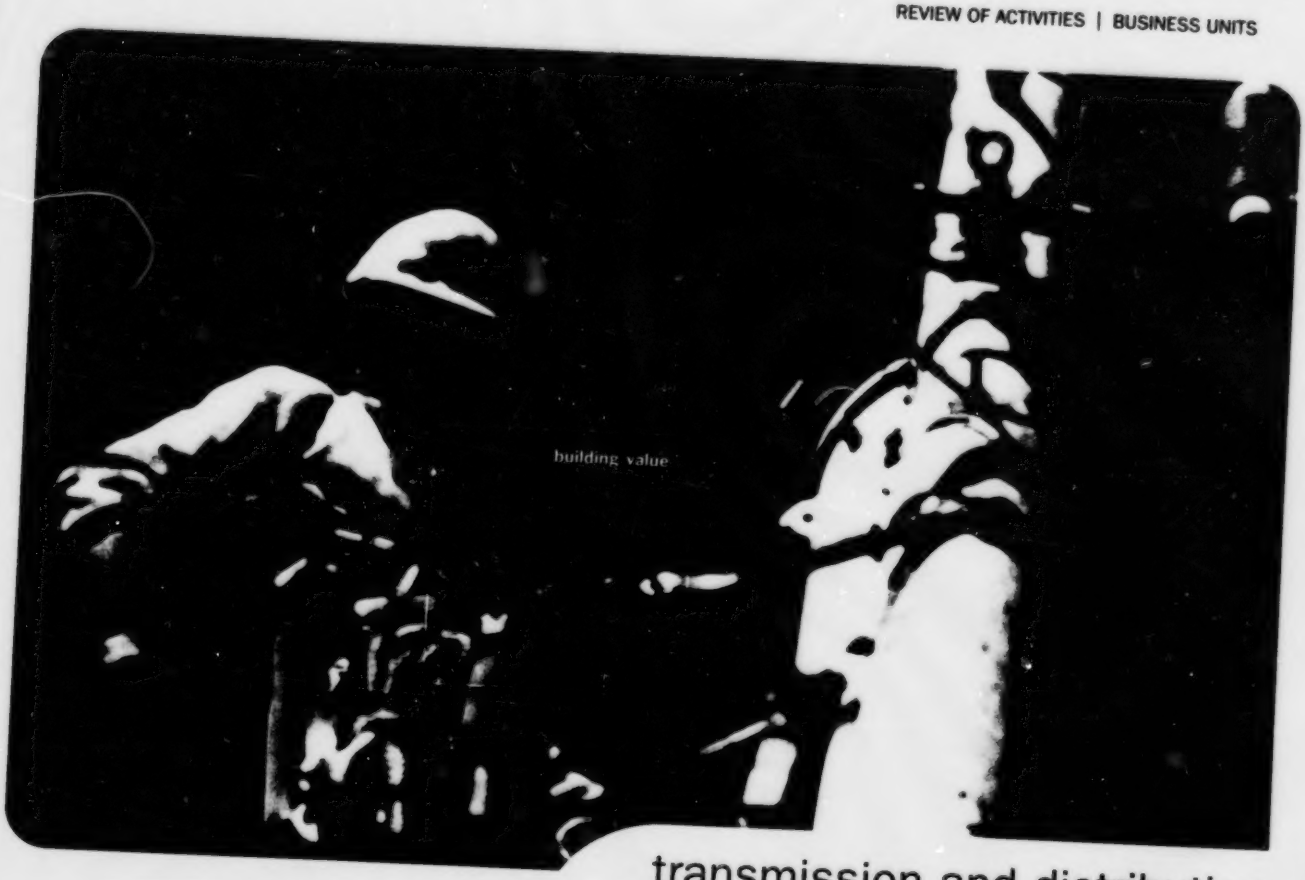
A Products and Services Agreement was successfully negotiated for the new retail market in northern Maine. Transmission and Distribution participated in deliberations for the development of a model for an Independent System Administrator that supported the concept of fair competition in northern Maine.

An older analog telecommunication system was replaced with digital technology and the expansion of the southern microwave ring was completed. Both projects will enhance system reliability, customer service and emergency restoration capability.

As a follow up to the 1998 ice storm, a major engineering review was conducted to benchmark system reliability, structure and processes against industry standards. The findings of the review have been incorporated into operations and business planning for the next five years.

All transmission operators–senior system operators, system co-ordinators and power system operators–have demonstrated excellence in the certification process of the North American Electric Reliability Council.

The continuation of the fleet refurbishment program is allowing for greater efficiency in determining fleet needs and tendering.



transmission and distribution

A positive health and safety audit by the Workplace Health, Safety and Compensation Commission of New Brunswick resulted in a commendation, testimony of progress achieved towards building a strong safety culture.

BUILDING A COMPETITIVE BUSINESS UNIT

Unbundling of the generation, transmission and marketing functions has been completed. This is part of NB Power's initiative to open its transmission system for other users who must be assured of comparable access. Component costs or prices for each type of service provided have been determined.

Based on the U.S. Federal Energy Regulatory Commission Order 2000 on the establishment of regional transmission organizations (RTOs), NB Power is exploring opportunities with neighbouring utilities. RTOs comprise several transmission utilities or systems which promote electricity trading over wide areas. This development would complement NB Power's strong interconnection capacity with utilities in New England and Eastern Canada.

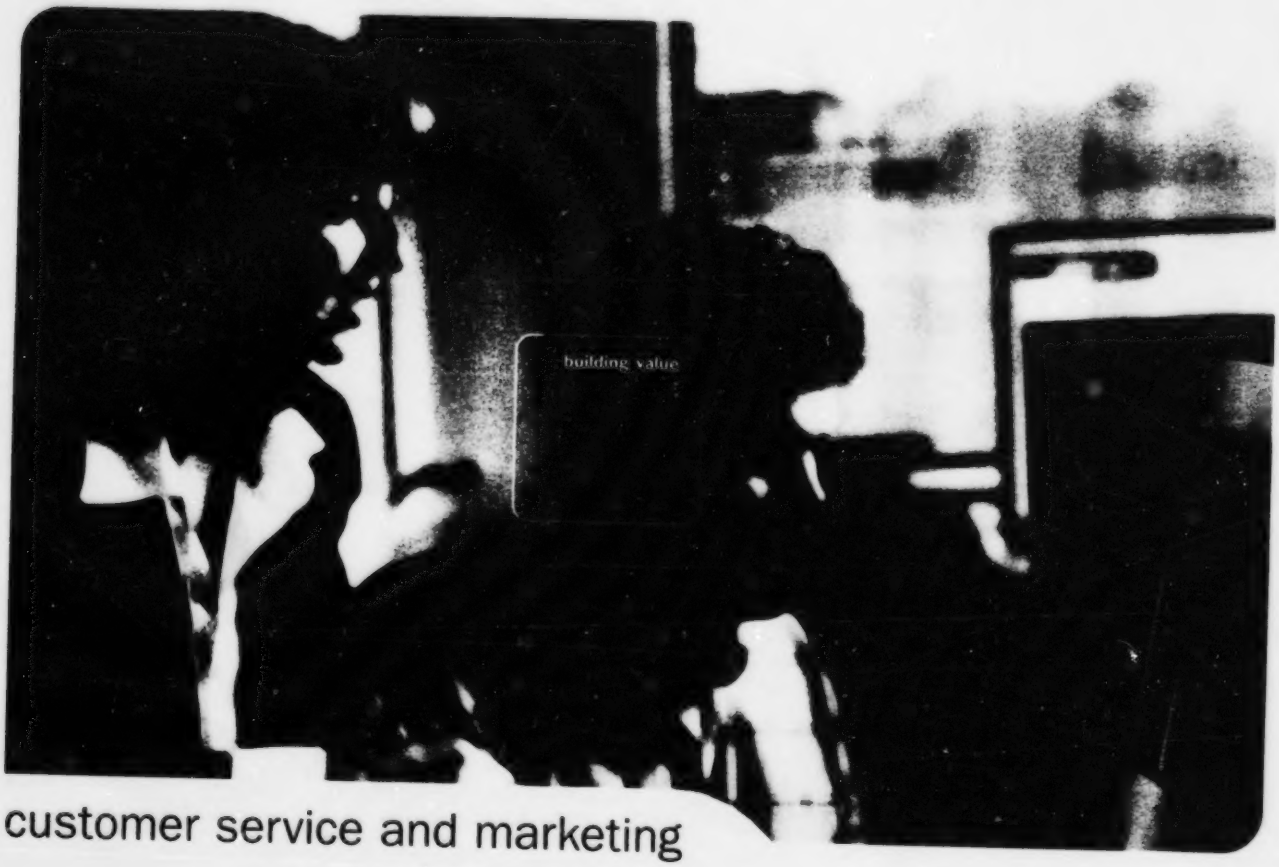
Greater involvement in the North American Electric Reliability Organization is being pursued pro-actively to provide a window on the industry and on competitive deregulation of the market.

Business process redesign of the Outage Management System and Work Planning System is underway. This business improvement is building on the successful implementation of the new state-of-the-art customer information and billing system.

The opening of operations offices throughout the five regions is providing improved customer service.

NB Power has begun a program in each business unit to integrate risk management with current business practices and introduce a more sophisticated framework for control procedures. At the corporate and business unit level, teams are examining which risk factors are obstacles to achieving business objectives and mitigation plans are being developed and implemented. The plans and results are monitored at both the Executive and Board levels. In T&D, the fully participative process has identified key areas for action such as reliability-centred maintenance, succession planning, developing strong business acumen and defining leadership strategies.

Development of work plans is underway to improve power quality and reliability to large industrial customers.



customer service and marketing

WITH ITS COMMITMENT TO CUSTOMER SATISFACTION, CUSTOMER SERVICE AND MARKETING FOCUSES ON ITS "EASY TO DO BUSINESS WITH" SERVICE STRATEGY. MAJOR INVESTMENTS ARE BEING MADE IN NEW SERVICE TECHNOLOGIES AND EMPLOYEE TRAINING AND DEVELOPMENT.

MANAGING CHANGE. QUALITY SERVICE. OUR BUSINESS IS CHANGING AS WE ADAPT TO COMPETITIVE CHALLENGES, BUT OUR FOUNDATION OF CUSTOMER SERVICE REMAINS STRONG.

BUSINESS ACCOMPLISHMENTS

The successful installation of a state-of-the-art customer information and billing system was a significant achievement. The new SAP Customer Care and Service System provides monthly billing for over 300,000 customers and integrates customer information with information contained in NB Power's other SAP systems.

An advanced telephone system is being installed in the Customer and Credit and Collections Call Centres and at the Energy Control Centre. Following complete implementation, the system will have interactive voice response, automatic call distribution and computer/telephone interface capabilities. These features will provide more service options for customers and give agents better work tools. There will also be improved high-volume inbound and outbound call handling during power outages.

NB Power implemented an innovative program that provides customers with the option to make a debit card payment to more than one company using the same PIN pad. NB Power worked with NBTel and a major Canadian Chartered Bank to implement this technology which is a first in Canada.

A new corporate web site (www.nbpower.com) provides another means of communicating and providing service to customers. The bilingual site presents information in an easy-to-use manner, focusing on customers and other user groups. Site visitors may apply for connection, disconnection, or installation of

> ENHANCE CUSTOMER SERVICE > PROVIDE SERVICE AT A COMPETITIVE COST > ADJUST ELECTRICITY PRICING TO ANTICIPATED MARKET LEVELS OVER TIME > MARKET THE ADVANTAGES OF ELECTRICITY

> OFFER CUSTOMER SERVICES THROUGH LOCAL PRESENCE REPRESENTATIVES IN REGIONAL OFFICES > CONTINUE TO FOCUS ON SERVICE THROUGH CENTRALIZED CUSTOMER CARE CENTRES > IMPROVE QUALITY AND COST-EFFECTIVENESS OF CUSTOMER SERVICE DELIVERY PROCESSES > DEVELOP ELECTRONIC SELF-SERVICE OPTIONS FOR TELEPHONE SYSTEM AND WEB SITE > OFFER FULL RANGE OF PAYMENT SERVICES FOR CUSTOMERS > COMPLETE COMPUTERIZATION OF PAYMENT DEPOTS FOR RAPID ACCOUNT UPDATES AND EFFECTIVE CONTROL > PRESERVE AND GROW MARKET POSITION RELATIVE TO COMPETING ENERGY FORMS BY MARKETING PRODUCTS > ACTIVELY BUILD RELATIONSHIPS WITH BUSINESS AND INSTITUTIONAL CUSTOMERS BY BETTER UNDERSTANDING THEIR OPERATIONS AND ADVISING THEM ON ELECTRICITY AND ENERGY ISSUES

new services, register for payment programs, receive answers to common service questions, or learn more about products and services.

Credit and collection performance has been a major focus in recent years and the level of arrears has improved. The new customer information and billing system allows for the early identification of customers who face payment difficulties.

Installing more sophisticated meters for business and institutional customers helps the utility and customers to better understand energy usage. It also helps Account Managers develop energy management advice. As more interval meters are being installed each year, the related computer software has been upgraded to produce billing data and research data.

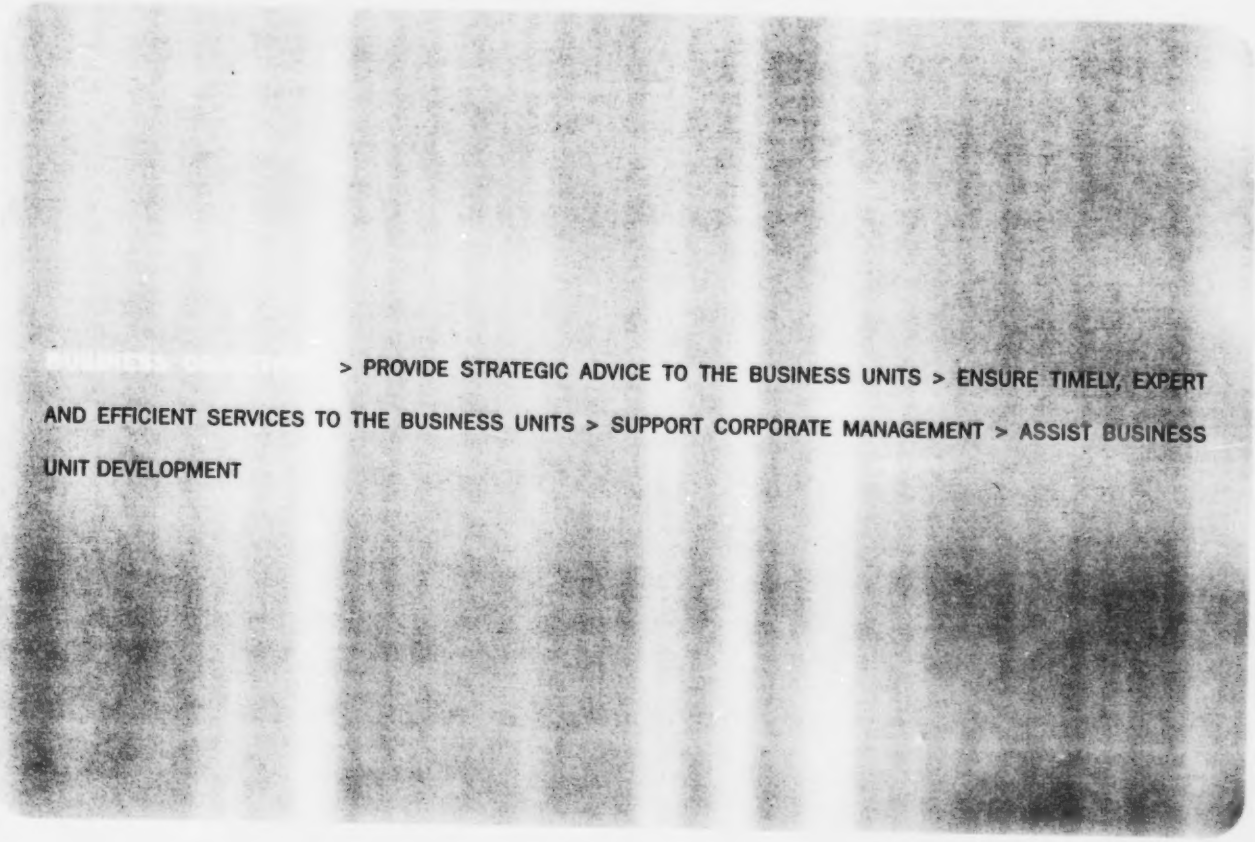
The Year 2000 transition was successfully completed following a review of all systems and work processes. There were also additional efforts to test transactions and check phone/fax lines during the critical date changeover period.

BUILDING A COMPETITIVE BUSINESS UNIT

A Controller has been added to the business unit to strengthen financial and performance management. Revenue accounting and all billing functions were consolidated in Customer Service and Marketing during the year. It will be increasingly important to identify service delivery processes and measure their costs and effectiveness.

The business unit must also develop more of a customer focus as it moves forward. Energy Advisors and Account Managers are now being given a sales focus in addition to their service roles. An important new communications tool, the *Pulse Newsletter*, is being used to disseminate market intelligence. The introduction of natural gas service to the province in late 2000 will increase the level of inter-fuel competition. Generic and targeted marketing programs are being developed, guided by customer surveys and focus groups.

Leadership and personnel development issues will receive increased attention as the business unit strives to elevate its level of performance. A Workplace Improvement Committee, a joint labour/management initiative throughout the Corporation, has been established in the business unit to address workplace and process improvement opportunities.



> PROVIDE STRATEGIC ADVICE TO THE BUSINESS UNITS > ENSURE TIMELY, EXPERT AND EFFICIENT SERVICES TO THE BUSINESS UNITS > SUPPORT CORPORATE MANAGEMENT > ASSIST BUSINESS UNIT DEVELOPMENT

THE CORPORATE SERVICE GROUP COMPRISES BUSINESS INFORMATION SYSTEMS, FINANCE, CORPORATE PLANNING, TELECOMMUNICATIONS, ENVIRONMENT, HUMAN RESOURCES AND ADMINISTRATION, LEGAL, AND PUBLIC AFFAIRS. BY PROVIDING STRATEGIC DIRECTION AND SUPPORT FUNCTIONS, THESE DIVISIONS ENABLE THE BUSINESS UNITS TO BETTER PERFORM IN THE GENERATION AND DELIVERY OF LOW COST, RELIABLE ELECTRICITY.

YEAR 2000 TRANSITION
Engineering and Technical Services co-ordinated the corporate-wide effort for the Y2K transition. All systems and equipment performed with no interruptions in generation, transmission, distribution or business processes.

BUSINESS INFORMATION SYSTEMS
NB Power's competitiveness requires state-of-the-art information technology systems and services.

> An IT infrastructure program was completed with both personal computer and server refreshes and a network upgrade. These improvements have increased system performance, providing a more responsive and flexible information technology base for the business units.

> BIS staff worked with the business units on over 160 business change projects including implementation of the new customer care system, plant performance improvement system and continued PeopleSoft system implementation. As part of the Y2K transition, BIS reviewed over 500 specific system applications for compliance and ensured that all information systems completed a successful transition.

> A critical element of NB Power's competitiveness is the IT capability of its employees. BIS provided training to over 1,300 employees on new systems and technology and to 400 employees who utilize the new customer care system.

FINANCE
The Finance division provides support in the development of NB Power's business operations and performance management.

> The division assisted the financial management of the business units through the Controllers Council.

corporate services

To further improve accountability, an executive committee reviews business unit operational and financial performance monthly.

> Working with Ernst & Young LLP, NB Power has implemented a risk management policy and process, and an executive committee is in place to ensure that risks and opportunities are balanced across all aspects of the business. Internal audit services worked with each of the business units to perform risk assessments and develop risk strategies.

> The financial hedging program continues to focus on monitoring oil prices, foreign exchange and interest rates in order to protect financial exposures. A five year debt management strategy is being implemented.

HUMAN RESOURCES AND ADMINISTRATION

The Human Resources and Administration Division works with the business units to ensure a progressive work environment that enhances overall performance.

> The Corporate Health and Safety Department continued work with the business units to achieve improved safety performance. One initiative for supervisory staff was the Practical Loss Control Leadership Program, an internationally recognized safety training program. NB Power has achieved the lowest number of disabling accidents ever recorded for the Corporation, 30 down from 36 in 1998-1999. The public electrical safety awareness program was continued throughout the year, and there were no fatalities or serious electrical contact injuries reported by members of the public.

> In partnership with the International Brotherhood of Electrical Workers (IBEW) and Assumption Life, Human Resources has implemented a fully integrated Wellness and Disability Management Program. The program is examining the cost-effectiveness of corporate health care, the integration of disabled employees in the workplace and a reduction in absenteeism.

> NB Power and IBEW have agreed to review their collective bargaining relationship to negotiate future collective agreements that reflect the business unit structure. In partnership with IBEW, the Corporation hosted a conference on best practices for Joint Workplace Committees. The conference, attended by over 160 delegates,

supported efforts to address workplace issues outside the scope of collective bargaining.

> To support the development of human resources, an Excellence in Leadership Certification Program has been launched throughout the Corporation. It aims to provide all management and labour leaders with the opportunity to gain knowledge, skills and overall competencies to lead employees in the achievement of their objectives. A leadership assessment process has been introduced to enhance the efficiency of the current leaders and to assist in determining future leaders. This process has been instrumental in charting developmental programs for leaders and their teams.

PUBLIC AFFAIRS

As the new era of competition evolves, NB Power is improving its financial and operational performance, strengthening its position in the marketplace and building value for its owner and customers. This new direction requires new communications tools, and Public Affairs has continued to act as a catalyst for corporate communications.

> Utilization of various web tools is intensifying. Public Affairs coordinated the content and technical development of the new Internet web site. Work on a significant Intranet refresh is underway. This employee site will act as the focal point for access to information within NB Power providing information, services and tools for business and communication processes.

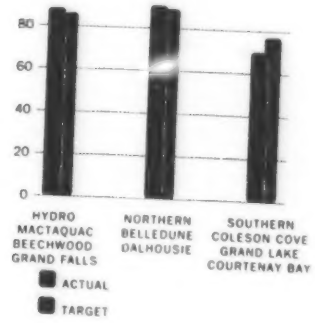
> Public Affairs is working with the business units on their communication requirements. Point Lepreau is enhancing internal and external communication activities related to refurbishment. Customer Service and Marketing is developing new communication marketing programs. *Business Risk Management News* is informing employees about the development of risk management at NB Power. The *Environmental Performance Report 1999* has set a new standard for providing comprehensive information about NB Power's environmental performance.

> The intensification of the corporate-wide design and visual identification program has established a fresh image for NB Power and re-established care and control over the brand name.

NB POWER MEASURES THE PERFORMANCE OF ITS BUSINESS UNITS THROUGH KEY INDICATORS. THE FOLLOWING INDICATORS REPRESENT PUBLIC INFORMATION.

UNIT AVAILABILITY

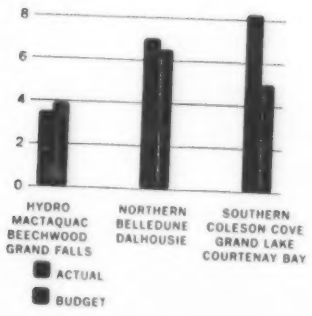
(%)



THE PERCENTAGE OF TIME, INCORPORATING PLANNED AND UNPLANNED OUTAGES, A UNIT IS AVAILABLE TO GENERATE ELECTRICITY.

OPERATIONS, MAINTENANCE AND ADMINISTRATION COST

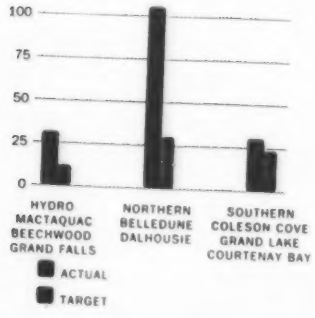
(in $ PER MWh)



THE BUDGETED VERSUS ACTUAL OPERATIONS, MAINTENANCE AND ADMINISTRATION COSTS ($/MWH) MEASURES EFFICIENT RESOURCE MANAGEMENT.

SAFETY

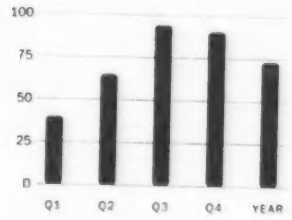
(DAYS LOST)



THE NUMBER OF DAYS LOST DUE TO INJURY TARGETTED AT AN AVERAGE 1/10 DAY PER EMPLOYEE EACH YEAR OR 10 DAYS PER 200,000 HOURS WORKED.

CAPACITY FACTOR

(%)

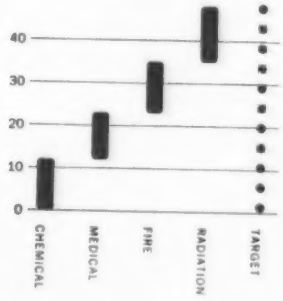


ANNUAL TARGET: 79%

CAPACITY FACTOR IS THE ACTUAL GENERATION AS A PERCENTAGE OF MAXIMUM GENERATION.

CONTINGENCY DRILLS

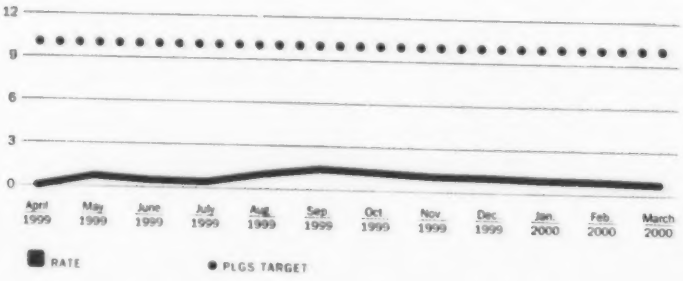
(NUMBER OF DRILLS COMPLETED)



CONTINGENCY DRILLS FOR CHEMICAL, MEDICAL, FIRE AND RADIATION ALERTS COMPLETED VERSUS THE NUMBER OF DRILLS SCHEDULED.

SAFETY

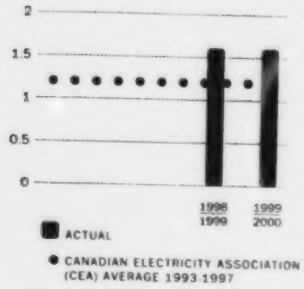
(%)



THE NUMBER OF DAYS LOST DUE TO INJURY PER 200,000 HOURS WORKED.

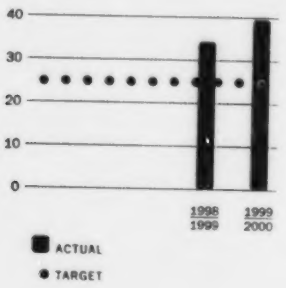
nuclea

SYSTEM RELIABILITY
(HOURS)



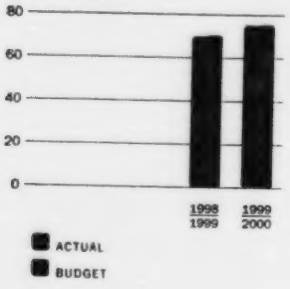
THE CUSTOMER AVERAGE INTERRUPTION DURATION, INCLUDING PLANNED AND UNPLANNED INTERRUPTIONS, IS AN INDUSTRY GAUGE OF SYSTEM RELIABILITY.

SAFETY
(SEVERITY RATE)



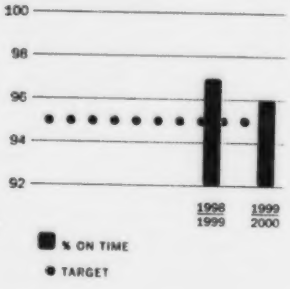
THE NUMBER OF DAYS LOST DUE TO INJURY PER 200,000 HOURS WORKED.

OM&A
(IN MILLIONS OF DOLLARS)



THE OPERATIONS, MAINTENANCE AND ADMINISTRATION BUDGET VERSUS ACTUAL COSTS.

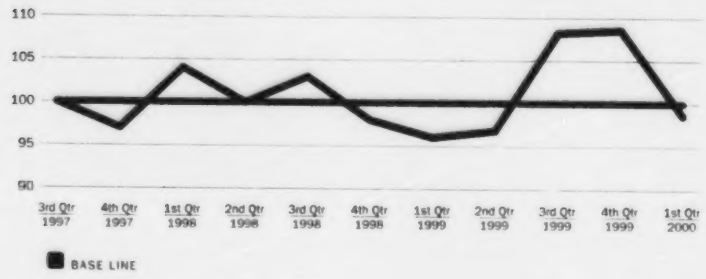
CUSTOMER SERVICE
(% ON TIME)



WORK ORDERS COMPLETED ON TIME, AS A PERCENTAGE OF WORK ORDERS FILED, REFLECTS TIMELINESS OF SERVICE TO CUSTOMERS.

transmission and distribution

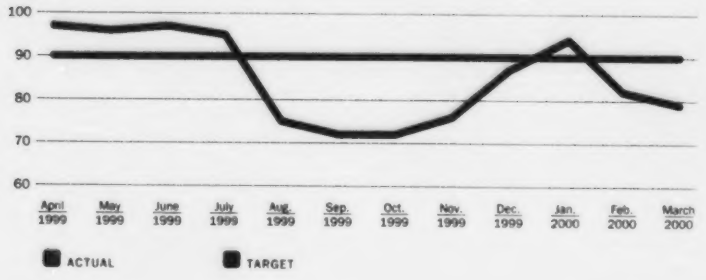
CUSTOMER SERVICES INDEX



THE CUSTOMER SERVICE INDEX IS ONE MEASURE FROM THE QUARTERLY CUSTOMER SATISFACTION SURVEY. THE INDEX IS BASED ON A COMPOSITE OF THE FOLLOWING SEPARATE MEASURES–QUALITY OF SERVICE, RELIABILITY, SERVICE COMPARED TO FIVE YEARS AGO, SERVICE RESTORATION AND HANDLING OF CUSTOMER INQUIRIES.

CUSTOMER SERVICE

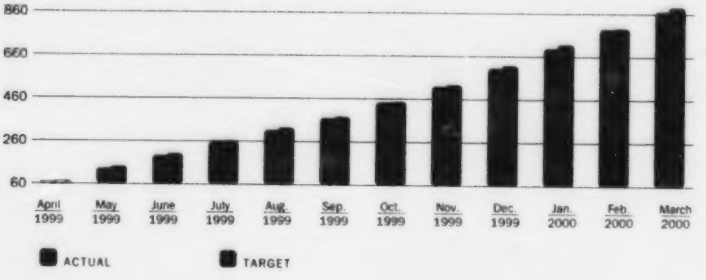
(% OF CALLS ANSWERED)



STAFF AT CALL CENTRES ANSWERED 587,046 CUSTOMER INQUIRIES DURING 1999-2000. NB POWER INSTALLED A NEW CUSTOMER INFORMATION AND BILLING SYSTEM FROM JULY TO OCTOBER 1999. THE DECREASE IN THE PERCENTAGE OF CALLS ANSWERED REFLECTS A TYPICAL SYSTEM IMPLEMENTATION CYCLE–STAFF TRAINING, 'GO LIVE' AND PERFORMANCE IMPROVEMENT. IN JANUARY 2000, SOFT SKILLS TELEPHONE TRAINING BEGAN, AND PERFORMANCE IS EXPECTED TO IMPROVE.

CUMULATIVE IN-PROVINCE REVENUE

(IN MILLIONS OF DOLLARS)



THE 1999-2000 IN-PROVINCE REVENUE FROM RESIDENTIAL, GENERAL SERVICE, WHOLESALE AND INDUSTRIAL CUSTOMERS WAS $875 MILLION.

customer service and marketing

Financial Review 1999-2000

26 > MANAGEMENT DISCUSSION AND ANALYSIS

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35 > CONSOLIDATED FINANCIAL STATEMENTS

39 > NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

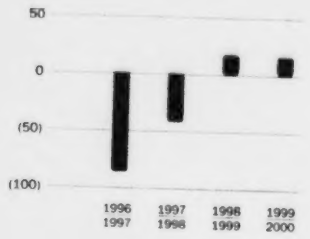
49 > STATISTICAL OVERVIEW

HIGHLIGHTS

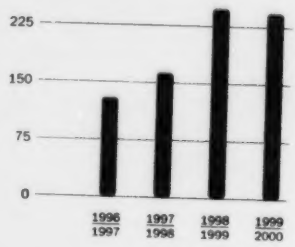
(IN MILLIONS OF DOLLARS)	1999-2000	1998-1999	1997-1998	1996-1997
Financial Performance				
Income (loss) before transfers and write-off	**$ 17**	$ 18	$ (43)	$ (87)
Income (loss) before write-off	**17**	27	(21)	(19)
Net income (loss)	**17**	(423)	(21)	(19)
Operating cash flow	**243**	247	163	129
Free cash flow	**196**	189	67	68
Reduction in net debt	**$233**	$ 123	$ 44	$ 53
Financial Ratios and Percentages				
Operating margin	**28%**	30%	26%	25%
Operating cash flow/ capital expenditures	**4.51x**	3.80x	2.76x	1.87x
Debt/capital	**99%**	100%	89%	89%
Interest coverage*	**1.06x**	1.06x	0.86x	0.72x

* Based on Income (loss) before transfers and write-off

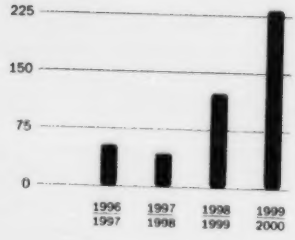
NET INCOME
Before Transfers And Write-Off
(IN MILLIONS OF DOLLARS)



OPERATING CASH FLOW
(IN MILLIONS OF DOLLARS)



REDUCTION IN NET DEBT
(IN MILLIONS OF DOLLARS)



OVERVIEW

Over the past four years, NB Power's financial performance has demonstrated continuing improvement. The Corporation's financial turnaround has exceeded $100 million, from a loss of $87 million in 1996-1997 to a net income of $17 million in 1999-2000. The Corporation's debt peaked in December 1995 at $3.5 billion and since 1996-1997 debt was reduced by $453 million.

During 1999-2000, key financial indicators demonstrated strong evidence of a sustainable financial performance:

> Net income was $17 million, which continued a positive trend of an improving bottom line. Net income included a one-time $7 million charge for early retirements associated with a staff reduction in the Generation business unit. Without this one-time charge, net income would have been $24 million. This charge will result in annual savings of $8 million beginning in 2001-2002.

> Operating cash flow amounted to $243 million, relatively stable when compared to $247 million in the previous year.

> Capital expenditures increased to $95 million and were funded through the Corporation's cash flow. Higher capital spending reflects the decision to make strategic investments to improve the future performance of the Corporation.

> Free cash flow (cash flow after capital expenditures and changes in working capital) increased to $196 million in 1999-2000 from $189 million in 1998-1999 and from $67 million in 1997-1998. This is an important measure of the Corporation's financial health as the funds available from business operations to reduce debt have nearly tripled in four years.

> Debt reduction continued for the fourth year in a row and was $233 million for 1999-2000. Debt reduction over these years has reached $453 million.

Increasing revenues from export markets and from in-province sales helped contribute to the improved financial performance for fiscal 1999-2000. These factors, combined with lower finance charges, helped to offset higher fuel costs and investments in OM&A.

Fuel costs increased because of lower-than-planned availability of low-cost nuclear power and higher oil prices. These increases were offset to some extent by improved hydro conditions and a slightly stronger Canadian dollar.

→ FOR THE PAST FOUR YEARS, DEBT REDUCTION HAS BEEN A TOP PRIORITY. UNTIL 1998, DEBT LEVELS HAD INCREASED SIGNIFICANTLY AS GENERATION CAPACITY WAS EXPANDED. ULTIMATELY, DEBT REDUCTION WILL MEAN A STRONGER NB POWER, ABLE TO DELIVER RELIABLE, COST-EFFECTIVE ELECTRICITY TO CUSTOMERS IN A COMPETITIVE ENVIRONMENT.

Looking to the future, new financial and business risk management plans are being implemented to protect the gains made from improving performance and to take advantage of future opportunities.

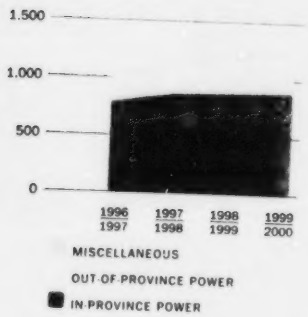
(IN MILLIONS OF DOLLARS)	1999-2000	1998-1999	1997-1998	1996-1997
Income (loss) before transfers and write-off	**$17**	$ 18	$(43)	$(87)
Transfers from reserves	**0**	9	22	68
Write-off of deferred charge	**0**	(450)	0	0
Net income (loss)	**$17**	$(423)	$(21)	$(19)

OPERATING RESULTS 1999-2000

Revenues

NB Power's total revenues comprise in-provinces sales, out-of-province sales and miscellaneous revenues from water heaters and the sale of steam and other by-products of electricity generation. Total revenue grew from $1.2 billion in 1998-1999 to $1.25 billion in 1999-2000, an increase of 3.7%.

REVENUE ANALYSIS
(IN MILLIONS OF DOLLARS)



Revenues

(IN MILLIONS OF DOLLARS)	1999-2000	1998-1999	1997-1998	1996-1997
Sales of power				
In-province	**$ 888**	$ 872	$ 869	$ 825
Out-of-province	**330**	304	244	182
Miscellaneous revenue	**30**	28	27	30
Total Revenues	**$1,248**	$1,204	$1,140	$1,037
% increase	**3.7%**	5.6%	9.9%	1.9%

Sales of Power–In-Province

In-province revenue from sales of electricity was $888 million in 1999-2000 compared to $872 million in 1998-1999, an increase of $16 million or 1.8%. The increase was mainly due to:

> load growth of 159 GWh which caused revenues to increase by $13 million
> the full-year impact of the 2.9% general rate increase implemented in October of 1998-1999 which caused revenues to increase by $10 million, offset by
> warmer than average winter weather which reduced electricity consumption by 121 GWh and caused revenues to decrease by $7 million

In-Province Revenue by Sector

All sectors for in-province revenues increased in 1999-2000 versus the previous fiscal year:

> Residential revenue from over 275,000 households was $340 million in 1999-2000, an increase of $5 million or 1.5% over 1998-1999 revenue of $335 million. Despite the overall increase, this sector was most affected by the weather, finishing the year $16 million below forecast.

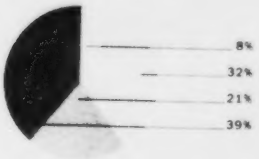
> General Service revenue, from small businesses, hospitals and schools, was $176 million for 1999-2000 compared to $170 million in the previous year, an increase of $6 million or 3.5%. This sector was characterized by strong growth in demand.

> Wholesale power sales to the municipal utilities of Saint John and Edmundston were $71 million, compared to $68 million in 1998-1999, a year-over-year increase of $3 million or 3.5%. The increase was mitigated by reduced load from warmer than average winter weather.

> Industrial revenue of $288 million was $5 million or 1.7% higher than 1998-1999 revenues from this sector. The increase was mainly due to strong economic growth in the Province.

IN-PROVINCE REVENUE

(IN MILLIONS OF DOLLARS)



WHOLESALE	71
INDUSTRIAL	288
GENERAL SERVICE & STREET LIGHTS	189
RESIDENTIAL	340
TOTAL	**888**

→ **NB POWER SUPPLIES ELECTRICITY FOR HOME HEATING TO ABOUT 60% OF ALL HOMES AND ABOUT 85% OF NEW HOMES. WARMER THAN AVERAGE WINTERS, SUCH AS OCCURRED IN 1999-2000, CAN GREATLY REDUCE THE AMOUNT OF ELECTRICITY NEEDED FOR HOME HEATING.**

→ **NB POWER SERVES OVER TWENTY-THREE THOUSAND GENERAL SERVICE CUSTOMERS SUCH AS HOSPITALS, SCHOOLS AND UNIVERSITIES, RESTAURANTS AND SIMILAR BUSINESSES. INDUSTRIAL CUSTOMERS, SUCH AS PAPER MILLS AND FACTORIES, NUMBER ABOUT 1,800. REVENUES FROM BOTH SECTORS ARE INFLUENCED BY ECONOMIC ACTIVITY AND, TO A LESSER DEGREE, THE WEATHER. THE CORPORATION ALSO SERVES TWO WHOLESALE CUSTOMERS, SAINT JOHN ENERGY AND CITY OF EDMUNDSTON ENERGY DEPARTMENT.**

Sales of Power–Out-of-Province

NB Power exports power to neighbouring provinces and the New England states and these sales continue to be a major source of revenue. Margins on these revenues have allowed NB Power to keep rates for in-province customers significantly lower than they otherwise would be.

Out-of-province revenue was $330 million in 1999-2000 compared to $304 million in the previous year. This represents an increase of $26 million or 8.6%. The out-of province revenues were higher than forecast, mainly because of the market situation in New England:

> a wholesale market in New England was established in March 1999

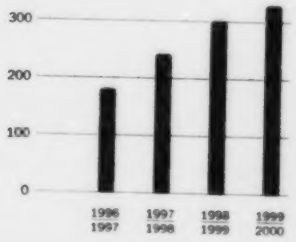
> the load increased in New England as the economy was buoyant and summer weather was warmer than usual

> prices in New England were higher than expected which compensated for lower sales volumes

This strong trend is expected to continue in the short term. However, in coming years, with the heavy building program for combined-cycle natural gas units in New England, NB Power's ability to compete in this market may diminish.

OUT-OF-PROVINCE REVENUE

(IN MILLIONS OF DOLLARS)



Expenses

FUEL AND PURCHASED POWER The cost of fuel and purchased power in 1999-2000 was $395 million compared to $374 million in 1998-1999, an increase of $21 million or 5.6%. Fuel represented approximately 57% of the costs, while purchased power represented approximately 43%. Fuel spending is primarily for heavy fuel oil, and purchased power to serve in-province and out-of-province customers in Nova Scotia, Maine and Quebec.

A significant portion of the cost increase of $21 million was necessary to supply export sales, which was more than offset through higher out-of province revenues.

Major factors contributing to fuel and purchased power expense increases included fuel prices, generation mix and load increases.

Cost pressures were as follows:

> rising fuel prices, mainly for heavy fuel oil, increased costs by $42 million
> the capacity factor of the Point Lepreau Generating Station was reduced from 84% in 1998-1999 to 72% in 1999-2000 causing an increase of $14 million in replacement power costs. (The more electricity that can be produced from nuclear, the less NB Power must rely on more expensive thermal generation and purchases of power.)

Offsetting these cost pressures were:

> a reduced load of 725 GWh reduced costs by $19 million
> hydro conditions were more favourable than in the previous fiscal year which reduced costs by $8 million. (High water levels allow increased production of relatively inexpensive power from the hydro generating stations.)
> the Canadian dollar strengthened against the US dollar, making fuel purchased in US dollars cheaper, saving $8 million versus the previous fiscal year

Fuel and Purchased Power Costs–Year Over Year

(IN MILLIONS OF DOLLARS)

	1999-2000	1998-1999	Variance	Energy (GWh) Generated	GWh Variance Over 1998-1999 increase (decrease)
Thermal	**$220**	$269	$(49)	9,197	(2,543)
Nuclear	**5**	7	(2)	4,022	(626)
Hydro	**0**	0	0	2,999	322
Purchases	**170**	98	72	4,632	2,122
Total	**$395**	$374	$ 21	20,850	(725)

Operations, Maintenance and Administration Expenses

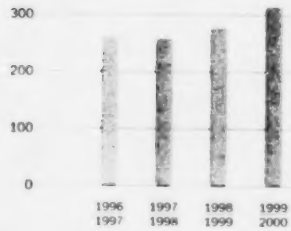
Expenses were $315 million in 1999-2000, compared to $277 million in 1998-1999. This represents an increase of $38 million or 13.7%. The upward pressure on costs resulted from:

> the longer than expected planned maintenance outage at the Point Lepreau Generating Station cost $17 million
> investments in Transmission and Distribution cost $5 million
> investment in information systems and technology cost $5 million
> a staff reduction program in Generation caused expenses to increase by $7 million
> other factors accounted for $4 million increase

OM&A expenses included $7 million for the early retirement and other costs associated with the staff reduction program in Generation. The Generation staff reduction plan was based on a benchmarking of high-performing power plants in North America. The plan had a one-time cost of $7 million, which was expensed during fiscal year 1999-2000. Annual operating savings of approximately $8 million are expected to begin in 2001-2002.

OM&A EXPENSES

(IN MILLIONS OF DOLLARS)



Amortization and Decommissioning

Amortization and decommissioning amounted to $190 million in 1999-2000 compared to $189 million in 1998-1999. Higher amortization costs were the main reason for the increase, attributable to a higher capital base.

→ NB POWER'S DEBT REDUCTION PROGRAM HAS RESULTED IN SIGNIFICANT REDUCTIONS IN INTEREST COSTS. INTEREST PAYMENTS IN 1999-2000 ALONE WERE LOWER BY $6 MILLION. THIS TREND WILL CONTINUE AS NB POWER PAYS OFF MORE DEBT, FURTHER REDUCING INTEREST EXPENSE AND THUS FREEING MORE MONEY FOR DEBT REDUCTION.

Finance Charges

Finance charges decreased to $331 million in 1999-2000, compared to $346 million in 1998-1999. There are two primary reasons for this $15 million, or 4.3%, cost reduction:

> successful debt reduction resulted in a decrease in interest payments of $7 million
> as (US) $46 million debt was paid down in the previous fiscal year, the annual foreign exchange costs of $8 million were eliminated

Capital Expenditures

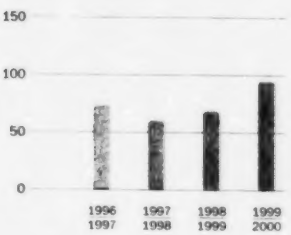
Capital expenditures totalled $95 million in 1999-2000, compared to $68 million in 1998-1999. The increase was primarily due to investments in:

> information technology
> upgrading Generation facilities
> Transmission & Distribution infrastructure maintenance

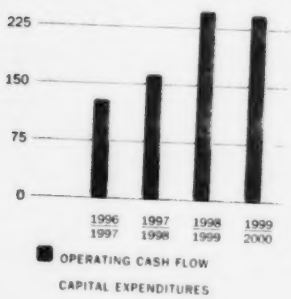
Information technology investment was focused on improving NB Power's customer care system and enhancing service to customers. Ongoing investment in information technology is critical to the future competitiveness of the Corporation, particularly as electricity deregulation progresses and the number and type of transactions increase.

CAPITAL EXPENDITURES

(IN MILLIONS OF DOLLARS)



COMPONENTS OF FREE CASH FLOW
(IN MILLIONS OF DOLLARS)



Operating Cash Flow and Debt Reduction

OPERATING CASH FLOW NB Power's operating cash flow was $243 million in 1999-2000, a decrease of $4 million or 1.6% from the previous fiscal year. Operating cash flow in 1999-2000 exceeded capital spending requirements, enabling NB Power to pay down its debt for the fourth year in a row. The Corporation expects capital expenditures to remain well below the level of operating cash flow in the next few years, allowing further debt reduction.

(IN MILLIONS OF DOLLARS)	1999-2000	1998-1999	1997-1998	1996-1997
Net income (loss)	**$ 17**	$(423)	$ (21)	$ (19)
Amortization and other non-cash items not requiring a cash payment	**226**	670	184	148
Operating cash flow	**$243**	$ 247	$163	$129

Free Cash Flow

Free cash flow increased to $196 million in 1999-2000 from $189 million in 1998-1999. Free cash flow is largely composed of operating cash flow less capital expenditures and changes in working capital. Proceeds on disposal included the sale of two 100 MW combustion turbines to Enron Canada for (US) $26 million. The turbines were surplus to generation requirements and the proceeds from the sale were applied to debt reduction.

(IN MILLIONS OF DOLLARS)	1999-2000	1998-1999	1997-1998	1996-1997
Operating cash flow	**$243**	$247	$163	$129
Capital expenditures	**(95)**	(68)	(61)	(73)
Proceeds on disposal and customer contributions	**41**	3	2	4
Decrease (increase) in working capital	**21**	21	(25)	8
Deferred pension benefit and increase in other deferred charges	**(14)**	(14)	(12)	0
Free cash flow[1]	**$196**	$189	$ 67	$ 68

[1] Free cash flow = operating cash flow – capital expenditures + customer contributions and proceeds + changes in working capital – deferred pension benefits and other deferred charges.

Debt Reduction

Debt reduction was $233 million compared to $123 million the year before. Free cash flow was applied to the Corporation's debt in amounts of $196 million in 1999-2000 and $189 million in 1998-1999. A foreign exchange adjustment is made at each fiscal year-end to reflect the impact of prevailing foreign exchange rates on the Corporation's US denominated debt.

(IN MILLIONS OF DOLLARS)	1999-2000	1998-1999	1997-1998	1996-1997
Free cash flow	**$196**	$189	$ 67	$ 68
Foreign exchange adjustment	**37**	(66)	(23)	(15)
Reduction in net debt	**$233**	$123	$ 44	$ 53

Ongoing debt reduction and declining interest expenses are factors in NB Power's improved net income:

> despite rising heavy fuel oil costs and lower-than-expected production from nuclear operations, NB Power held its net income relatively steady at $17 million
> reduced interest expenses alone contributed $7 million to net income
> reducing interest costs by reducing debt improved the Corporation's financial flexibility

Liquidity

The Corporation maintains approximately 5% of its borrowings as floating-rate debt. Debt maturing in 1999-2000 comprised $100 million 8.25% bonds maturing March 2000. During the fiscal year, NB Power exercised call options for early redemption on $100 million 13.25% bonds due November 2004 and $50 million 11.25% bonds due January 2005. NB Power will exercise call options where opportunities exist to replace high-coupon debt with low-coupon debt.

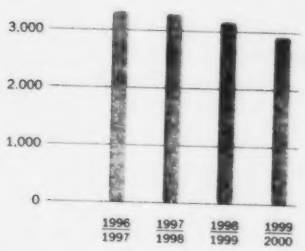
Debt

(IN MILLIONS OF DOLLARS)

	1999-2000	1998-1999	1997-1998	1996-1997
Long-term debt, net of sinking fund investments	**$2,795**	$3,019	$3,104	$3,247
Short-term indebtedness	**176**	159	194	111
Cash and short-term investments	**(34)**	(7)	(4)	(21)
Total	**$2,937**	$3,171	$3,294	$3,337

TOTAL NET DEBT

(IN MILLIONS OF DOLLARS)



Financial Risk Management

NB Power actively manages a variety of financial risks to its business operations, including fuel prices, currency fluctuations and interest rate changes. The goal is to maintain stability and predictability of costs, helping the Corporation meet budget targets. Financial contracts are used to hedge a portion of the Corporation's exposure to particular risks.

Financial Sensitivity

(IN MILLIONS OF DOLLARS)

Economic Variable	Sensitivity/ Variance (+/-)	Net Income Impact 1999-2000
Canadian Dollar (US¢)	(US) 1¢	**$4.5**
Interest Rates (short term)	1%	**2.0**
Interest Rates (long term)	1%	**2.0**
Oil Prices ($US/bbl)	(US) $1/bbl	**$4.0**

NB Power's exposure to the US dollar affects a variety of costs. Approximately 35% of the Corporation's total costs, arising from fuel, purchased power and finance charges, are settled in US dollars. As well, total net debt is affected by foreign currency translation of the Corporation's (US) $660 million debt. The impact of currency fluctuations is mitigated by a currency hedging program and the rollover of US dollar debt into Canadian funds.

Interest rate fluctuations affect the cost of debt to NB Power. The Corporation seeks to replace high-interest debt with lower-interest debt by re-borrowing at the relatively low interest rates prevalent in the past few years. The Corporation is implementing a hedging program to reduce the interest rate exposures.

NB Power used approximately five million barrels of heavy fuel oil during 1999-2000 to generate electricity. In its efforts to mitigate oil price volatility, the Corporation uses forward contracts to lock in oil prices for the time when it most relies on the fuel. Exposure to oil price fluctuations has been reduced by diversifying fuel sources and, in the coming years, NB Power will add natural gas to its mix.

Business Risk Management

NB Power has begun a three-year program with Ernst & Young LLP to integrate risk management with business practices and introduce a more sophisticated framework for control procedures. Through business risk management, NB Power will examine what factors present obstacles to achieving its business objectives, determine what risks are most important and test how risks are managed.

The objectives of the program are to:

> develop a common understanding of the key business risks facing NB Power and their potential impact on achieving business objectives
> formalize NB Power's risk management policy and structure
> prioritize and focus on key risks
> enhance ownership and accountability for risk management throughout the Corporation

In the corporate risk assessment, NB Power has identified key risk factors, impacts and gaps that are potential obstacles to achieving its business objectives. Primary among these risk factors are:

> **Point Lepreau**–consistent and predictable operations
> **System reliability**–due diligence in maintaining system reliability
> **Leadership**–attracting, developing and retaining strong leadership and competencies
> **Implementing change**–changing to a new competitive environment
> **Cost**–cost effectiveness (labour costs, fuel costs, market risk)
> **Customers**–identifying, anticipating, interpreting, understanding and satisfying customer needs and service levels

By the end of 1999-2000, a corporate risk management structure had been implemented, including a risk assessment process and a risk management policy. The business units had completed their operational risk assessments and developed corrective action plans that will be incorporated into their existing business practices. Assessments by Business Risk Assurance Services provide support to the business units for monitoring and control testing. The corporate and business unit action plans and control testing results are monitored at the Executive and Board levels.

MANAGEMENT REPORT

NB Power's financial statements have been prepared by management, who are responsible for the integrity, accuracy and fairness of the information. The accounting principles followed in the financial statements are generally accepted in Canada. The financial information throughout the annual report is consistent with the financial statements.

Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets are safeguarded and proper records maintained. These controls include:

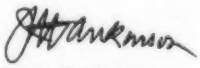
> system security and various financial controls
> quality standards in hiring and training of employees
> a code of conduct
> establishment of an organizational structure that provides a well-defined division of responsibilities
> performance accountability
> communication of policies and guidelines through the Corporation

Internal controls are reviewed and evaluated by audit programs which are subject to scrutiny by external auditors.

The ultimate responsibility for the financial statements rests with the Board of Directors. The Board is assisted in its responsibilities by the Audit Committee. The Audit Committee reviews the recommendations of the internal and external auditors for improvements in internal control and the action of management to implement such recommendations.

In carrying out its duties and responsibilities, the Audit Committee meets regularly with management and with both the external and internal auditors to review the scope and timing of their respective audits, to review their findings and to satisfy itself that its responsibilities have been properly discharged. The Audit Committee reviews the financial statements and recommends them for approval by the Board.

The Corporation's external auditors, Deloitte & Touche LLP, have conducted an independent examination of the financial statements in accordance with auditing standards generally accepted in Canada, performing such tests and other procedures as they consider necessary to express the opinion in their Auditor's Report. The external auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings as to the integrity of the Corporation's financial reporting and the adequacy of internal control systems.



James F. Hankinson
President and Chief Executive Officer

Sharon MacFarlane
Vice President–Finance and Information Systems
May 12, 2000

AUDITOR'S REPORT

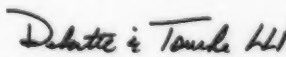
The Honourable Marilyn Trenholme Counsell, MD
Lieutenant-Governor of New Brunswick
Fredericton, New Brunswick

Madam:
We have audited the consolidated balance sheet of New Brunswick Power Corporation as at March 31, 2000 and the consolidated statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
May 12, 2000

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

YEAR ENDED MARCH 31, 2000

(IN MILLIONS OF DOLLARS)	2000	1999
Revenues		
Sales of power (NOTE 3)		
In-province	$ 888	$ 872
Out-of-province	330	304
Miscellaneous	30	28
	1,248	1,204
Expenditures		
Purchased power	170	98
Fuel	225	276
Operation, maintenance and administration	315	277
Amortization and decommissioning (NOTE 4)	190	189
	900	840
Income before finance charges	348	364
Finance charges (NOTE 5)	331	346
Income before transfer and write-off	17	18
Transfer from fuel channel removal account (NOTE 6)	–	9
Income before write-off	17	27
Write-off of deferred cost–nuclear generating station (NOTE 7)	–	450
Net income (loss) for the year	17	(423)
Retained earnings		
Beginning of year	2	425
End of year	$ 19	$ 2

See accompanying notes to the consolidated financial statements.

(IN MILLIONS OF DOLLARS)	2000	1999
Property, plant and equipment (NOTE 8)		
Land, buildings, plant and equipment, at cost	**$5,329**	$5,263
Less: accumulated amortization	**2,333**	2,133
	2,996	3,130
Long-term assets		
Sinking fund investments (NOTE 12)	**17**	56
Current assets		
Cash and short-term investments	**34**	7
Accounts receivable	**170**	191
Materials, supplies and fuel	**78**	74
Prepaid expenses	**3**	3
	285	275
Deferred charges		
Unrealized foreign exchange differences, less amounts amortized (NOTE 9)	**106**	155
Debenture and note discount and issue expenses, less amounts amortized	**22**	25
Deferred pension benefit (NOTE 10)	**38**	25
	166	205
	$3,464	$3,666

See accompanying notes to the consolidated financial statements.

On behalf of New Brunswick Power Corporation

Max Lewis
Chairman

Lino J. Celeste
Director

CONSOLIDATED BALANCE SHEET
(AS AT MARCH 31, 2000)

(IN MILLIONS OF DOLLARS)	2000	1999
Long-term debt (NOTE 12)		
Debentures and other loans	**$2,907**	$3,250
Less: sinking funds	**329**	305
	2,578	2,945
Current liabilities		
Short-term indebtedness (NOTE 13)	**176**	159
Accounts payable and accruals	**139**	128
Accrued interest	**79**	84
Current portion of long-term debt (NOTE 12)	**234**	130
	628	501
Deferred liabilities		
Irradiated fuel management and plant decommissioning (NOTE 14)	**209**	197
Other (NOTE 15)	**30**	21
	239	218
Equity		
Retained earnings	**19**	2
	$3,464	$3,666

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOW

YEAR ENDED MARCH 31, 2000

(IN MILLIONS OF DOLLARS)	2000	1999
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net income (loss) for the year	**$ 17**	$(423)
Amounts charged or credited to operations not requiring a current cash payment (NOTE 16)	**226**	670
	243	247
Net change in non-cash working capital balances	**21**	21
	264	268
Financing		
Debt retirements	**(175)**	(81)
Sinking fund payments	**(61)**	(70)
Long-term debt obligations issued	**50**	–
Increase (decrease) in short-term indebtedness	**17**	(35)
	(169)	(186)
Investing		
Expenditure on property, plant and equipment	**(95)**	(68)
Proceeds on disposal and customer contributions	**41**	3
Deferred pension benefit	**(13)**	(14)
Increase in other deferred charges	**(1)**	–
	(68)	(79)
Net cash inflow	**27**	3
Cash and short-term investments		
Beginning of year	**7**	4
End of year	**$ 34**	$ 7

See accompanying notes to the consolidated financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

The New Brunswick Power Corporation ("the Corporation"), established in 1920 as a Crown Corporation of the Province of New Brunswick by enactment of the New Brunswick Electric Power Act, has a corporate mission to provide for the continuous supply of energy adequate for the needs and future development of the Province and to promote economy and efficiency in the generation, distribution, supply, sale and use of power.

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles, applied on a basis consistent with that of the preceding year. The financial statements include the accounts of the Corporation and those of its wholly owned subsidiary, N.B. Coal Limited (N.B.Coal).

a. Regulation

The Corporation is regulated under a price cap system. Annual average rate increases greater than three percent, or the Consumer Price Index, whichever is higher, require regulatory review and approval by the Board of Commissioners of Public Utilities of the Province of New Brunswick (Public Utilities Board). The Corporation must also apply to the Public Utilities Board before making any expenditure greater that $75 million in relation to upgrading, maintaining or decommissioning of a generating facility.

b. Property, plant and equipment

The cost of additions to property, plant and equipment is the original cost of contracted services, direct labour and material, interest on funds used during construction and indirect charges for administration and other expenses, less credits for the value of power generated during commissioning.

Interest during construction is capitalized monthly based on the cost of long-term borrowings. When significant assets are taken out of service for extended periods of time for refurbishment, interest during construction is charged based on the net book value of the asset concerned.

Contributions in aid of construction, which include amounts received from customers as well as research and development grants in respect of new facilities, are netted against the cost of related assets. Amounts received from customers are being amortized over the estimated service lives of the related assets.

The cost of distribution assets retired, net of dismantlement and salvage, is charged to accumulated amortization. For all other property, plant and equipment disposed of, the cost and accumulated amortization is written out of the accounts with the gain or loss on disposal being reflected in income.

Amortization is provided for all assets sufficient to amortize the cost of such assets, less estimated salvage value over their estimated service lives. The estimated service lives of fixed assets are periodically reviewed and any changes are applied prospectively. Amortization is suspended when significant assets are taken out of service for extended periods for refurbishment. Amortization is provided on certain mining equipment on an increasing charge basis, the amortization amount being based on the amount of related debt retirement required during the year. All other assets are amortized on a straight-line basis. Amortization is provided on the net cost of property, plant and equipment in respect of which grants have been provided.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

The main categories of property, plant and equipment have been amortized based on the following estimated service lives:

Assets	Years
Hydro Generating Stations	100
Thermal Generating Stations	35
Nuclear Generating Station	25
Combustion Turbine Generating Stations	25
Terminals and Substations	40
Transmission System	35 to 55
Distribution System	10 to 35
Buildings	
General	40
Head Office	50
Mining Equipment	20 to 25

Each asset category includes components which are amortized over service lives shorter than their related main asset categories.

c. Cash and Short Term Investments

Cash and short term investments consist of balances with banks and investments in money market instruments which mature within three months from date of acquisition.

d. Inventories

Inventories of materials and supplies, and fuel, other than nuclear fuel, are valued at average cost. Nuclear fuel is valued at cost using the first-in, first-out method.

e. Debenture and note discounts and premiums, and issue expenses

The Corporation amortizes debenture and note discounts and premiums and the expenses of issues over the lives of the issues to which they pertain.

f. Foreign exchange transactions

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian (Cdn) dollars at rates of exchange prevailing at the balance sheet date except where such items have been hedged by the acquisition of a forward exchange contract, in which case the rate established by the terms of the contract is used in the translation. Unrealized losses or gains arising on translation of long-term items are amortized to income on a straight-line basis over the remaining life of the related monetary assets or liabilities, except that amounts associated with the financing of major construction projects still in progress are deferred until the project is completed before being amortized over the then remaining life of the related monetary liabilities. The unamortized balance of the deferred exchange gains or losses is accumulated in an unrealized foreign exchange account which is shown on the balance sheet under deferred charges.

Exchange gains or losses resulting from transactions affecting current operations are reflected in income.

g. Financial instruments

LONG-TERM DEBT Long-term debt is recorded on the balance sheet at cost. The estimated fair value of long-term debt is disclosed in the notes to the financial statements using market values or estimates of market values based on debt with similar terms and maturities. The fair value estimated does not include costs that would be incurred to exchange or settle the debt.

DERIVATIVE FINANCIAL PRODUCTS The Corporation enters into forward exchange contracts to manage exchange risk related to interest obligations on US denominated long-term debt for terms up to eighteen months. The Corporation also enters into interest rate agreements to reduce exposure to changes in interest rates on planned refinancing of debt. The Corporation also enters into oil swap agreements to reduce exposure to changes in the cost of oil used in the operations of its plants.

h. Revenue

Billings to residential and general service customers are rendered monthly on a cyclical basis. All other customers are billed at the end of each month. Revenue in respect of items not billed at the end of a fiscal period is estimated and accrued.

i. Irradiated fuel management and plant decommissioning

In order to provide for the estimated future costs of permanently disposing of irradiated nuclear fuel and decommissioning the nuclear generating station to return the site to a state of unrestricted use, the Corporation annually charges income with amounts calculated to be adequate, when accumulated with interest, to cover the total costs of these future activities as they occur. The calculations of the anticipated future costs are based on a detailed study which takes into account various assumptions regarding the method and timing of dismantlement of the nuclear facility, the cost of transportation of nuclear material to permanent disposal facilities, and estimates of interest and inflation rates in the future. With respect to irradiated nuclear fuel, the annual charge is related to the amount of nuclear fuel consumed in each year, while decommissioning requirements are charged on a straight-line basis over the life of the station.

The Corporation is also providing, through an annual charge to income, for the estimated future costs of decommissioning its thermal generating stations. The amount of the charge, when accumulated with interest, is intended to cover the total costs of decommissioning activities as they occur.

Amounts charged each year to cover these activities are accumulated in a deferred liability account, together with interest, compounded annually, on the total amounts collected. Interest is calculated at the Corporation's long-term borrowing rate and is charged to income annually.

Costs incurred on a current basis relating to irradiated fuel management and plant decommissioning are charged against the deferred liability account.

In view of potential developments in the technology of decommissioning and irradiated fuel management, and because of the various assumptions and estimates inherent in the calculations, the Corporation reviews such calculations periodically, making adjustments as necessary on a prospective basis.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

j. Pension plans

Corporation employees belong to the Province of New Brunswick Public Service Superannuation Plan. This multi-employer plan provides pensions based on length of service and the average of the highest five consecutive years of earnings. The Corporation and its employees make contributions to the plan as prescribed in the Public Service Superannuation Act and its regulations. N.B. Coal maintains a private contributory defined benefit pension plan for its employees.

Under both plans, pension costs are actuarially determined using the projected benefit method, pro-rated on services and management's best estimate assumptions. Adjustments arising from plan amendments, experience gains and losses, changes in actuarial assumptions and the difference between the actuarial present value of accrued pension obligations and the market related value of pension assets are amortized on a straight-line basis over the expected average remaining service lives of the respective employee groups.

k. Retiring allowance

The Corporation has a retiring allowance program for employees that provides a lump-sum payment equal to one week of pay for each full year of continuous employment to a maximum of 26 weeks of pay. The actuarial present value of accrued retiring allowance obligations for past service is amortized on a straight line basis over the expected average remaining service life of the employee group.

l. Early retirement programs

The total cost of such programs is charged to income in the year the program is initiated, irrespective of when payments are actually made.

m. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from the estimates.

2. CASH AND SHORT TERM INVESTMENTS

	2000	1999
Cash	**$31**	$6
Short term investments	**3**	1
	$34	$7

3. SALES

a) Power sales to the Province of New Brunswick and other government owned organizations are recorded at normal commercial rates.

b) Out-of-province sales of power include $223 million (1999–$183 million) to utilities in the United States.

4. AMORTIZATION AND DECOMMISSIONING

	2000	1999
Amortization expense	**$188**	$186
Charges for decommissioning	**2**	3
	$190	$189

5. FINANCE CHARGES

	2000	1999
Interest expense		
On debentures and other loans	**$309**	$321
On deferred liabilities	**15**	14
	324	335
Less: Income from sinking funds and other investments	**28**	35
	296	300
Provincial government guarantee fee	**20**	21
Amortization of debenture discount and expense	**5**	4
Amortization of unrealized foreign exchange	**12**	22
	333	347
Less: Interest capitalized	**2**	1
	$331	$346

Interest paid on debt during the year was $314 million (1999–$322 million). Interest received on investments during the year was $28 million (1999–$30 million).

6. FUEL CHANNEL REMOVAL

The Corporation eliminated the fuel channel removal liability account over a three year period which commenced October 1, 1995 and ended September 30, 1998.

7. WRITE-OFF OF DEFERRED COST–NUCLEAR GENERATING STATION

In 1997-1998 the carrying value of the nuclear generating station was reduced by $450 million and an offsetting deferred charge was recorded. This was in recognition of efforts to identify a potential new revenue stream to recover the $450 million. In 1998-1999 the Corporation was not able to identify the necessary revenue stream and the deferred charge was written off against net income.

8. PROPERTY, PLANT AND EQUIPMENT

	2000		1999	
	Cost	Accumulated amortization	Cost	Accumulated amortization
Power generating stations	**$3,731**	**$1,648**	$3,728	$1,492
Transmission system	**252**	**111**	249	106
Terminals and substations	**389**	**185**	390	175
Distribution system	**651**	**256**	636	240
Buildings and properties	**56**	**24**	57	24
Communications and computer systems	**59**	**19**	32	17
Mining equipment and related assets	**74**	**50**	74	44
Motor vehicles	**45**	**29**	38	27
Miscellaneous assets	**18**	**11**	17	8
Construction-in-progress	**54**	**–**	42	–
	$5,329	**$2,333**	$5,263	$2,133

9. UNREALIZED FOREIGN EXCHANGE DIFFERENCES, LESS AMOUNTS AMORTIZED

	2000	1999
Exchange adjustment at balance sheet date	**$167**	$204
Less: accumulated amortization	**61**	49
	$106	$155

10. DEFERRED PENSION BENEFIT

Corporation employees belong to the Province of New Brunswick Public Service Superannuation Plan (Public Service Plan) as described in Note 1j. Actuarial valuations are prepared periodically to determine the costs of the pension benefits and the appropriate amounts of contributions to the fund. The latest actuarial valuation done on the Public Service Plan was April 1, 1997.

The actuarial method used incorporates management's or the plan owner's best estimate assumptions to determine the present value of accrued pension benefit obligations based on projections of salaries and wages to normal retirement dates. The interest rate on accrued pension benefits and the rate of return on assets used in these calculations was 8.42%.

The status of the costs and obligations of the Corporation's share of the Public Service Plan and N.B. Coal's private plan as at March 31, 2000 was as follows:

	2000	1999
Pension fund assets (market value)	**$654**	$540
Accrued pension obligations	**$554**	$512
Determination of pension expense for the year is summarized below:		
Cost of benefits for the year	**$ 8**	$ 6
Interest cost on accrued benefits	**44**	40
Interest on pension fund assets	**(45)**	(45)
Amortization of transitional surplus	**(1)**	(1)
Amortization of gains/losses	**(3)**	1
Pension expense	**$ 3**	$ 1

Total contributions to the plans in excess of pension expense, in the amount of $38 million (1999–$25 million) have been set up as an asset under deferred charges.

11. RETIRING ALLOWANCE LIABILITY

The Corporation has a retiring allowance program for employees as described in Note 1k. Actuarial calculations are prepared to determine the amount of the Corporation's obligations for retiring allowances. The actuarial method used incorporates management's best estimate assumptions to determine the present value of the accrued retiring allowance obligation based on projections of salaries and wages to normal retirement dates. The interest rate used in the calculation of this obligation was 6%. The latest actuarial calculation was done as at April 1, 1998.

The retiring allowance obligation as at March 31, 2000 is $25 million (1999–$23 million). The retiring allowance expense for the year ended March 31, 2000 was $4 million (1999–$4 million).

The cumulative amount expensed in excess of amounts paid out under the retirement allowance program has been set up as a liability under deferred liabilities.

12. LONG-TERM DEBT

	2000	1999
Debentures guaranteed by the Province of New Brunswick	**$ 211**	$ 363
Debentures held by the Province of New Brunswick	**2,930**	3,017
	3,141	3,380
Less: Payments due within one year	**234**	130
	$2,907	$3,250

Debentures and notes

Date of maturity	Average Interest Rate	Canadian	US	2000	1999
Years ending March 31:					
2000	–	$ –	$ –	$ –	$100
2001	10.6%	251	–	**251**	251
2002	9.6%	250	–	**250**	250
2003	8.0%	500	174	**674**	681
2004	7.5%	100	–	**100**	100
2005	–	–	–	–	–
1-5 years	8.8%	1,101	174	**1,275**	1,382
6-10 years	9.5%	570	–	**570**	620
11-30 years	8.7%	500	785	**1,285**	1,365
Debentures and notes		$2,171	$959	**3,130**	3,367
Loan payable in annual installments of principal and interest at rates varying from 4.5% to 8.25% per annum to the year 2011.				**11**	13
Total long-term debt				**$3,141**	$3,380

The US$ debenture balance outstanding at March 31, 2000 is (US) $660 million.

The weighted average interest rate on all debentures and notes outstanding at March 31, 2000 is 8.88% (1999–9.07%).

Long-term debt payments

Long-term debt maturities and sinking fund requirements in respect of debt outstanding at March 31, 2000 are as follows for the five years ending March 31, 2005:

	Debt maturities and sinking fund obligations
Year ending March 31:	
2001	$234
2002	243
2003	603
2004	106
2005	19

Exchange rates in effect at March 31, 2000 are used for debt denominated in foreign currencies.

12. LONG-TERM DEBT (continued)

Sinking funds

The Minister of Finance of the Province of New Brunswick, as Trustee for the Corporation, maintains a sinking fund for all debenture issues where required. Sinking fund earnings are reflected in the Corporation's income. Corporation debentures held in the fund are cancelled at maturity or on the debenture call date. Sinking fund investments are deducted from long-term debt except where the legally enforceable right to offset does not exist. The amounts not offset, totalling $17 million (1999–$56 million), have been reclassified as investments.

Guarantee fee

The Corporation pays an annual guarantee fee to the Province of New Brunswick, amounting to 0.6489% of the total, as at the previous year end, of long term debt guaranteed by the Province, debentures held by the Province and short-term indebtedness to the Province, less the balance held in sinking funds.

13. SHORT-TERM INDEBTEDNESS

The Corporation borrows funds for temporary purposes from the Province of New Brunswick. The short-term borrowings from the Province of New Brunswick are $176 million at March 31, 2000 (1999–$159 million).

The Corporation may also borrow from banks from time to time. Such borrowings are payable on demand. The Corporation has bank lines of credit, guaranteed by the Province of New Brunswick, for short-term borrowings totalling $104 million.

N.B. Coal has bank lines of credit which are secured by a general assignment of book debts.

14. IRRADIATED FUEL MANAGEMENT AND PLANT DECOMMISSIONING

	2000	1999
Irradiated fuel management	**$109**	$104
Nuclear decommissioning	**86**	82
Thermal decommissioning	**14**	11
	$209	$197

The obligation is not funded.

15. DEFERRED LIABILITIES–OTHER

	2000	1999
Early retirement programs	**$27**	$20
Retirement allowance program	**6**	4
	33	24
Less: Amounts due within one year	**3**	3
	$30	$21

16. AMOUNTS CHARGED OR CREDITED TO OPERATIONS NOT REQUIRING A CURRENT CASH PAYMENT

	2000	1999
Amortization and decommissioning	**$190**	$189
Amortization of debenture discount and expense	**5**	4
Amortization of unrealized foreign exchange	**12**	22
Disposal of nuclear fuel consumed during the year	**(2)**	(1)
Interest on plant decommissioning and irradiated fuel management	**12**	11
Early retirement and retirement allowance programs	**9**	4
	226	229
Write-off of deferred cost–nuclear generating station	**–**	450
Transfer from fuel channel removal account	**–**	(9)
	$226	$670

17. FINANCIAL INSTRUMENTS

Foreign exchange risk management

At March 31, 2000, the Corporation had outstanding forward exchange contracts representing a net commitment to purchase (US) $105 million (1999–(US) $71 million). The weighted average rate of exchange protected by these contracts is Cdn $1.4521.

The fair value of forward exchange contracts as at March 31, 2000 is $151 million (1999–$108 million). If the contracts had been closed out at March 31, 2000 the loss would have been immaterial.

Fuel price risk management

At March 31, 2000, the Corporation had outstanding oil swap contracts totalling $20 million (1999–$40 million) maturing over the next year. In 1999, $18 million of these contracts, with a fair value of $14 million, constituted swap contracts entered into on behalf of a customer. Any gains or losses associated with this contract accrued to the customer.

The fair market value of the fuel price swap agreements as at March 31, 2000 is $24 million (1999–$37 million).

Under the agreements, the Corporation exchanges monthly payments based on the differential between a fixed price and a monthly cumulative floating price for the associated fuel. The differential to be paid or received is reflected in the cost of fuel.

If the outstanding swap contracts for which gains or losses accrue to the Corporation had been closed out at March 31, 2000, the gain would have been $4 million (1999–$1 million).

Interest rate risk management

The Corporation has entered into an interest rate swap agreement with an effective date of October 1, 2002 and termination date of October 1, 2012. The agreement has a notional principal amount of $50 million. The Corporation will pay a fixed rate of 6.521%. If the agreement had been closed out at March 31, 2000 the loss would have been immaterial.

17. FINANCIAL INSTRUMENTS (continued)

Fair value of debt and sinking funds

The estimated fair value of long-term debt as at March 31, 2000 is $3,448 million compared to a book value of $3,141 million (1999–$3,970 million compared to $3,380 million). The estimated fair value of all sinking funds as at March 31, 2000 is $362 million compared to a book value of $346 million (1999–$395 million compared to $361 million).

18. COMMITMENTS

Belledune Wharf

The Corporation has entered into a twenty year operating lease, expiring in 2013, with a twenty year renewal option for the port facility at Belledune. This lease provides for annual charges of approximately $4.5 million.

Courtenay Bay Generating Station

The Corporation has entered into a twenty year site lease agreement, expiring in 2021, with a five year option to extend, for lease of the existing site infrastructure to a third party to re-power an existing 100 MW unit to a 280 MW combined-cycle natural gas unit.

The Corporation has also entered into a related twenty year power purchase and transmission access agreement, expiring in 2021, with a five year option to extend with the same third party. The Corporation will purchase all the electrical energy produced by the re-powered 280 MW combined cycle natural gas unit during the winter period, November 1 to March 31, and from time to time, some or all of the electrical energy produced during the summer period.

Gas Transportation Agreement

The Corporation has entered into a fifteen year agreement for firm natural gas transportation service to the re-powered Courtenay Bay Generating Station. The cost of transportation, commencing on November 1, 2000 or the date when the transportation facilities are placed in service, will be recovered from the tenant, referred to in the lease, of the generating station.

Computer Equipment

During the year, the Corporation entered into operating leases relating to computer equipment. The future minimum lease payments under these leases are as follows:

	2000	1999
2001	**$4**	–
2002	**3**	–
	$7	–

19. CONTINGENCY

N.B. Coal has an ongoing environmental responsibility to treat acidic water drainage from an inactive mine. Ongoing cost of treatment is approximately $0.5 million per year.

20. COMPARATIVE FIGURES

Certain 1999 figures have been reclassified to conform with 2000 financial statement presentation.

STATEMENT OF GENERATION

(IN MILLIONS OF KWH)

	1999-2000	1998-1999	1997-1998	1996-1997	1995-1996
Hydro	**3,018**	2,696	2,357	2,860	2,731
Thermal	**9,763**	12,430	10,914	8,157	8,508
Nuclear	**4,323**	4,970	3,962	3,777	1,703
Combustion Turbine	**19**	3	9	1	8
Purchases	**4,712**	2,568	3,148	3,908	6,274
Gross generation and purchases	**21,835**	22,667	20,390	18,703	19,224
Station service	**985**	1,092	1,004	904	842
Net generation and purchases	**20,850**	21,575	19,386	17,799	18,382
Losses–transformer and transmission	**688**	663	627	677	738
Total energy available for distribution	**20,162**	20,912	18,759	17,122	17,644

STATEMENT OF SALES

(IN MILLIONS OF KWH)

	1999-2000	1998-1999	1997-1998	1996-1997	1995-1996
Sales					
Wholesale	**1,126**	1,069	1,091	1,094	1,068
Industrial	**5,924**	5,985	6,003	5,604	5,620
General service	**2,093**	2,036	2,066	2,048	2,023
Residential	**4,371**	4,387	4,575	4,441	4,418
Street lights	**73**	72	71	69	69
Total in-province sales	**13,587**	13,549	13,806	13,256	13,198
Interconnections	**6,255**	7,048	4,771	3,548	4,140
Total sales	**19,842**	20,597	18,577	16,804	17,338
Internal Use	**320**	315	182	318	306
Distribution losses	**20,162**	20,912	18,759	17,122	17,644
Total energy distributed and sold					

Note: 1997-1998 distribution losses includes 263.5 GWh less 1996-1997 restatement of 81.6 GWh.

STATEMENT OF SALES

(IN $MILLIONS)

	1999-2000	1998-1999	1997-1998	1996-1997	1995-1996
Wholesale	**$ 71**	$ 68	$ 69	$ 69	$ 67
Industrial	**288**	283	280	263	258
General service	**176**	170	168	163	158
Residential	**340**	335	336	315	303
Street lights	**13**	16	16	15	15
Total in-province sales	**888**	872	869	825	801
Interconnections	**330**	304	244	182	187
Sales of power	**1,218**	1,176	1,113	1,007	988
Miscellaneous	**30**	28	27	30	30
Total revenue	**$1,248**	$1,204	$1,140	$1,037	$1,018

STATEMENT OF IN-PROVINCE GENERATION

(IN MILLIONS OF KWH)	1999-2000	1998-1999	1997-1998	1996-1997	1995-1996
Hydro	**3,019**	2,696	2,357	2,859	2,731
Coal	**3,677**	3,065	3,291	3,375	3,620
Heavy fuel oil	**1,796**	3,114	3,496	1,976	1,938
Orimulsion*	**1,830**	1,509	1,699	1,550	1,440
Nuclear	**3,980**	4,558	3,640	3,479	1,634
Combustion turbine	**4**	1	4	1	1
Purchases	**1,249**	574	1,116	1,894	3,705
Gross generation and purchases	**15,555**	15,517	15,603	15,134	15,069
Station service	**962**	989	988	882	828
Net generation and purchases	**14,593**	14,528	14,615	14,252	14,241
Losses–transformer and transmission	**684**	663	627	677	738
Total energy available for distribution	**13,909**	13,865	13,988	13,575	13,503

PEAK DEMAND AND CAPACITY[1]

(MW)	1999-2000	1998-1999	1997-1998	1996-1997	1995-1996
System net generating capacity	**4,119**	4,119	4,119	4,111	4,111
Firm capacity purchases	**49**	49	49	49	10
Total available resources	**4,168**	4,168	4,168	4,160	4,121
In-province system net peak demand	**2,856**	2,786	2,792	2,832	2,826
Firm exports	**427**	531	492	487	462
Operating reserve	**629**	684	684	687	725
Total requirement	**3,912**	4,001	3,968	4,006	4,013

[1] This information is calculated based on the peak demand which occurred February 18, 2000. On March 31, 2000, the system net generating capacity was lowered by 200 MW reflecting the sale of two surplus 100 MW combustion turbine units.

OPERATING STATISTICS

(MARCH 31)	1999-2000	1998-1999	1997-1998	1996-1997	1995-1996
Transmission lines–km	**6,660**	6,660	6,660	6,660	6,660
Distribution circuits–km	**25,621**	25,475	25,475	25,326	25,246
Residential customers	**280,513**	276,360	274,116	271,759	269,190
Industrial customers	**1,847**	1,834	1,832	1,764	1,706
General service customers	**23,345**	23,103	22,985	22,948	23,019
Non-metered customers[2]	**3,250**	2,116	2,573	2,538	2,601
Direct customers	**305,705**	303,413	301,506	299,009	296,516
Indirect customers	**41,678**	40,673	40,589	40,541	40,606
Total customers	**347,383**	344,086	342,095	339,550	337,122
Employees–regular	**2,445**	2,463	2,450	2,485	2,463
Employees–temporary	**84**	69	55	40	100
Employees–N.B. Coal Limited	**102**	103	103	101	144

[2] Formerly called Street light customers, now includes flat rate water heater customers.

INCOME STATEMENT SUMMARY

(IN $MILLIONS)

	1999-2000	1998-1999	1997-1998	1996-1997	1995-1996
In-province revenue	**$ 888**	$ 872	$ 869	$ 825	$ 801
Out-of-province revenue	**330**	304	244	182	187
Miscellaneous	**30**	28	27	30	30
Total fuel and purchases	**395**	374	404	332	357
Operations, maintenance and administration	**315**	277	258	266	281
Amortization and decommissioning	**190**	189	177	184	143
Finance charges	**331**	346	344	342	300
Income (loss) before transfers and write-off	**17**	18	(43)	(87)	(63)
Generation equalization transfer	**0**	–	–	33	49
Fuel channel account transfer	**0**	9	22	35	22
Income (loss) before write-off	**17**	27	(21)	(19)	8
Write-off of deferred cost	**0**	450	–	–	–
Net income (loss)	**$ 17**	$ (423)	$ (21)	$ (19)	$ 8
Interest coverage ratio[1]	**1.06x**	1.06x	.86 x	.72x	.80x

[1] Interest coverage ratio = [(net income before transfers and write-off) + (interest expense – income from sinking funds and other investments)] / (interest expense – income from sinking funds and other investments)

BALANCE SHEET INFORMATION

(MARCH 31, IN $MILLIONS)

	1999-2000	1998-1999	1997-1998	1996-1997	1995-1996
Assets					
Property, plant and equipment	**$2,996**	$3,130	$3,252	$3,818	$3,926
Long-term assets	**17**	56	70	57	110
Current assets	**285**	275	274	284	354
Deferred charges	**166**	205	601	134	137
Total assets	**$3,464**	$3,666	$4,197	$4,293	$4,527
Liabilities					
Long-term debt	**$2,578**	$2,945	$3,075	$3,170	$3,283
Current liabilities	**628**	501	483	450	494
Deferred liabilities	**239**	218	214	226	284
Equity	**19**	2	425	447	466
Total liabilities and equity	**$3,464**	$3,666	$4,197	$4,293	$4,527
Debt ratio[2]	**99%**	100%	89%	89%	89%

[2] Debt ratio = (debt) / (debt + equity) where debt = (long-term debt + short-term indebtedness + irradiated fuel management and plant decommissioning + fuel channel removal – cash and short-term investments – sinking fund investments)

FINANCIAL STATISTICS

(IN $MILLIONS)	1999-2000	1998-1999	1997-1998	1996-1997	1995-1996
Finance costs					
Interest expense	**$324**	$ 335	$338	$350	$366
Income from sinking fund and other investments	**(28)**	(35)	(31)	(41)	(43)
Provincial Government guarantee fee	**20**	21	22	22	22
Amortization and debenture discount	**5**	4	4	4	5
Amortization of unrealized foreign exchange	**12**	22	12	10	12
Interest capitalized	**(2)**	(1)	(1)	(3)	(62)
Net financial expense	**$331**	$ 346	$344	$342	$300
Other Statistics					
Rate increase					
CPI (New Brunswick)	**0%**	2.9%	2.9%	2.9%	2.0%
GDP increases (New Brunswick)	**1.6%**	0.6%	1.8%	1.5%	1.5%
Capital expenditures (millions)	**2.0%**	2.3%	2.0%	1.5%	2.5%
Change in total debt (millions) (net of sinking funds, cash and investments)	**$ 95**	$ 68	$ 61	$ 73	$168
% Breakdown of long-term debt:	**$(233)**	$(123)	$ (44)	$ (53)	$ 30
Canadian dollar	**69.0%**	70.0%	71.0%	70.0%	70.0%
US dollar	**31.0%**	30.0%	29.0%	30.0%	30.0%
Weighted average interest rate	**8.9%**	9.1%	9.1%	9.1%	9.1%

CORPORATE GOVERNANCE

NB Power's mission is to provide for the continuous supply of energy adequate for the needs and future development of the Province and to promote economy and efficiency in the generation, distribution, supply, sale and use of power. NB Power's Board of Directors and management are committed to high standards of Corporate Governance and believe that a sound corporate governance system will support the achievement of this mission.

During the last two years, NB Power has formalized and enhanced its corporate governance practices. Corporate governance practices are in compliance with the recommendations of a number of organizations that consider corporate governance matters, including the Toronto Stock Exchange (the TSE Guidelines) and the Conference Board of Canada.

MANDATE OF THE BOARD

The Board of Directors is specifically responsible for the:

> adoption of a strategic planning process
> implementation of appropriate systems to identify and manage the principal risks to the business
> establishment of succession planning for senior management
> communication policy
> ensure the integrity of internal accounting and management information systems

Under the general direction of the Board, management is responsible for the operations of NB Power and may pursue approved strategic initiatives within the framework of authorized budgets and corporate policies.

COMPOSITION OF THE BOARD

The Board of Directors consists of 10 members, all unrelated directors, in addition to the President and CEO who is an *ex-officio* member of the Board. An "unrelated" director is a director who is independent of management and is free from any interest and any business, or other relationship, which could materially interfere with the director's ability to act with a view to the best interests of the Corporation. Occasionally, the Board and its Committees hold *in camera* meetings without management present.

COMMITTEES OF THE BOARD

The Board of Directors has put in place systems and established committees to effectively manage and monitor the principal risks to the business in which the Corporation is engaged. The following are descriptions of these committees, their mandates and activities. All committees report on their deliberations to the full Board at each of its regular meetings.

Human Resources and Corporate Governance Committee

The Human Resources and Corporate Governance Committee reviews the Corporation's human resources strategy, policies and programs to ensure they support its objective of attracting and retaining the most competent human resources available in today's competitive marketplace. The Committee is also responsible for developing and monitoring the Corporation's approach to governance issues. The Committee addresses on an on-going basis matters relative to senior executive evaluation and compensation.

Audit Committee

The Audit Committee is responsible for assessing the integrity of the Corporation's financial reporting, internal control and audit process. The Committee has direct communication with the Company's independent auditors and regularly meets with the auditors without management present. The Audit Committee is also responsible for monitoring the development and implementation of business risk management plans and control procedures.

Environment Committee

The Environment Committee is responsible to review and advise the Board on the suitability of NB Power's Environmental Policy Statement. The Committee monitors the Environmental Management Programs within the Corporation. The Committee also reviews the *Environmental Performance Report*, a stand-alone report that outlines NB Power's environmental challenges and achievements. As part of the normal financial audit, external auditors, through discussions and examinations, assess on an annual basis the completeness, valuation and disclosure of material environmental liabilities and contingencies in the Corporation's financial statements.

MEETING THE BOARD STEWARDSHIP ROLE

To assist Board members in meeting their stewardship role, the Board has developed guidelines defining the scope of its duties and responsibilities and a Board Effectiveness/Self Evaluation, a process co-ordinated by the Chair of the Human Resource and Corporate Governance Committee. The goal of Board self-assessment is to enhance Board effectiveness by providing an opportunity for reviewing Board processes and reminding Directors of the critical nature of their contribution to the Corporation's present and future ability to compete successfully in the marketplace. A formal Orientation Program has also been implemented for new Directors. The business objectives and key results for which the President and CEO is responsible are set annually by the Board of Directors. The Board monitors and reviews the performance of the President and CEO on an annual basis.

COMPLIANCE WITH APPLICABLE CORPORATE GOVERNANCE GUIDELINES

With a view to continually enhancing the effectiveness of its approach to Corporate Governance, the Board of Directors has, over the past year, implemented the following initiatives:

> The Board reviewed management's long range plans, programs, performance targets and budgets. The Board addresses matters affecting strategic planning on an on-going basis at its regular meetings.

> The Board, through its Audit Committee, approved an Enterprise Risk Management Policy, a process to identify, assess, monitor and manage business risks across the organization to optimize business values and improve decision-making. The Enterprise Risk Management program provides a broader, more standardized approach to business risk management. Operational Risk Assessments have now been conducted in the Generation, Transmission and Distribution, Nuclear, and Customer Service and Marketing business units. Actions plans were developed, and the results are being reviewed by the Audit Committee. The internal audit function was outsourced effective April 1999 and its focus is now on business risk assessment.

> The Environment Committee focused its attention on the implementation of environmental management systems, environmental audits, provincial environment issues, facility re-licensing and radiological and waste management programs at the Point Lepreau Generating Station.

> The Human Resource and Corporate Governance Committee ensured that due diligence was exercised relative to the health and safety of NB Power employees and the public. The Committee received regular reports relative to the health and safety compliance management system and the public safety program. The Committee reviewed the corporate safety performance at each of its regular meetings.

> The Chair of the Human Resource and Corporate Governance Committee also co-ordinated the Board Effectiveness/Self-Evaluation process where each Director was required to complete a self-assessment as well as an evaluation of the Board as a whole. As a result of these evaluations, discussions were held on issues of concerns and a course of action implemented.

> Programs have been introduced to address succession planning at the senior levels of the Corporation.

> A Workplace Improvement Committee Conference, jointly sponsored by NB Power and IBEW, was held in January 2000. From this beginning, employee awareness sessions, known as "Outreach 2000", provided face-to-face forums for open and frank discussion about the current operations and future direction of the Corporation. NB Power launched its web site on January 2000 as another means of communicating and providing services to its customers. The project complements the corporation's "New Tools" communication program. This on-going program has also included a visual identification initiative, public awareness advertising and a design standard for publications and customer information.

BOARD COMMITTEES

The Audit Committee reviews corporate financial information, internal control systems and audit processes. Its members are: Lino Celeste (Chair), Max Lewis, Barbara Bender, Jean-Marc Violette and Philippe DesRosiers.

The Environment Committee reviews environmental policies and protection programs. Its members are: Richard Tingley (Chair), Jim Purcell, Philippe DesRosiers, Roger Clinch and Jean-Marc Violette.

The Human Resources and Corporate Governance Committee oversees corporate human resources strategy development and monitors governance issues. Its members are: Jim Purcell (Chair), Max Lewis, Lino Celeste, Alvin Brun and Bernard Cyr.

BOARD OF DIRECTORS

MAX LEWIS – CHAIRMAN > Mr. Lewis retired from the Provincial Government in 1996 after twenty-six years in the public service. He served as CEO of the New Brunswick Liquor Corporation, deputy minister of supply and services, and deputy minister of finance.

JEAN-MARC VIOLETTE – VICE-CHAIRMAN > Mr. Violette is a farmer and wood lot manager in St. Leonard and has been active in the agriculture sector. He has served on the Farm Debt Review and the Farm Development Boards.

JAMES F. HANKINSON – PRESIDENT AND CHIEF EXECUTIVE OFFICER > Mr. Hankinson has been president and chief executive officer of NB Power since 1996. He is a director of several Canadian companies including CAE Inc. and Maple Leaf Foods Inc.

LINO J. CELESTE > Mr. Celeste is chairman of the board of Aliant Inc. and serves on the board of Manulife Financial Corporation. He also serves as chairman of the Saint John Foundation.

ALVIN BRUN > Mr. Brun was president and CEO of Enviro Industries and is now president and CEO of Kanalflakt, an international ventilation systems manufacturer. He has served on the Premier's Roundtable on the Environment and the Economy.

J.W. (JIM) PURCELL > Mr. Purcell is former executive vice-president and is currently a director of Ganong Brothers Ltd. and was formerly chairman of the Atlantic Health Sciences Corporation.

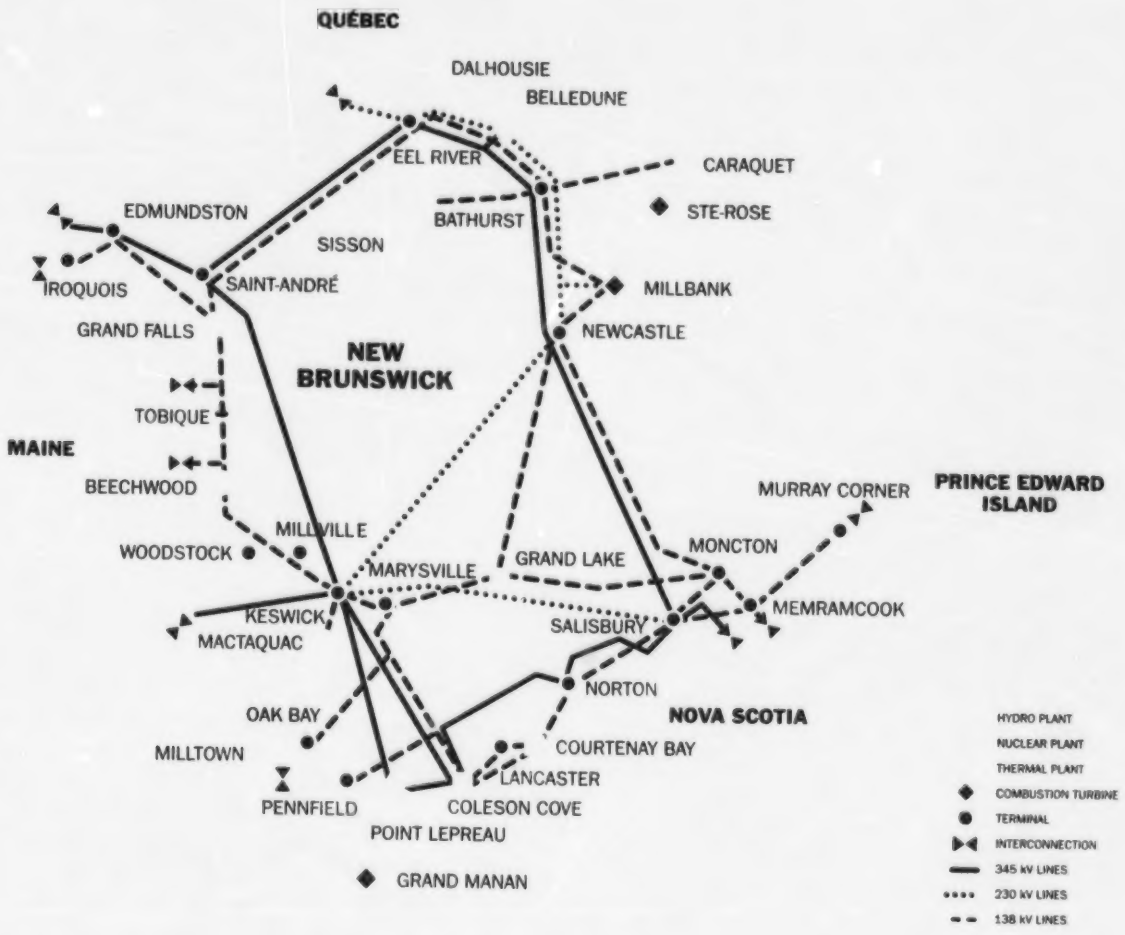
RICHARD TINGLEY > Mr. Tingley is former owner/operator of Tingley's Save Easy in Fredericton and is in private business. He is past chair of the board of governors of the University of New Brunswick and is currently a member of the Maritime Provinces' Higher Education Committee.

BERNARD CYR > Mr. Cyr is owner of Cyr Holdings which operates the Chateau Moncton Hotel, develops commercial properties and operates various restaurants (Pizza Delight and Tim Hortons). Mr. Cyr is also owner and franchisor of the Dooly's group. He has been past president of the YMCA in Moncton and is a director of Assomption-Vie and serves on the Atlantic Canada development committee for the National Bank and the Université de Moncton.

BARBARA S. BENDER, CA > Ms. Bender is vice-president of Spartan Systems in Saint John and has been executive director of the N.B. Institute of Chartered Accountants.

PHILIPPE DESROSIERS > A vice-president of the National Bank, Mr. DesRosiers is responsible for retail, corporate and commercial banking in Atlantic Canada.

ROGER CLINCH > Mr. Clinch is a senior executive with Noranda in New Brunswick where he is responsible for communication and information services.



NET GENERATING CAPACITY

Hydro	
Milltown	4 MW
Tobique	20 MW
Sisson	9 MW
Grand Falls	66 MW
Beechwood	113 MW
Mactaquac	672 MW
Total Hydro	884 MW

Nuclear	
Point Lepreau	635 MW

Thermal	
Grand Lake	57 MW
Courtenay Bay	253 MW
Dalhousie	300 MW
Coleson Cove	1,006 MW
Belledune	458 MW
Total Thermal	2,074 MW

Combustion Turbine	
Grand Manan	28 MW
Millbank	198 MW
Ste-Rose	100 MW
Total Combustion Turbine	326 MW